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# Commonwealth Debt Capacity

## Presentation to Joint Subcommittee on Public Safety

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## Commonwealth Debt

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- Primary Goal to Maintain the Commonwealth's AAA/Aaa/AAA General Obligation bond rating
- Rating Agency key factors
  - control of debt burden
  - economic climate-vitality and diversity
  - fiscal performance
  - administrative capabilities
- Debt Capacity Advisory Committee (DCAC) established in 1991

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## Debt Capacity Advisory Committee Mandate

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- Annually reviews the size and condition of the Commonwealth's tax-supported debt
- Submits to the Governor and the General Assembly an estimate of the maximum amount of additional tax-supported debt that prudently may be authorized during the next two years
- The estimate is advisory and in no way binds the Governor or the General Assembly
- Debt Affordability Model views debt affordability over a ten-year period and reserves issuance capacity throughout the ten-year period
- Control of debt burden/debt affordability is one of four key factors assessed by rating agencies

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## Debt Capacity Advisory Committee Assumptions

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- Self-imposed restraint
- Conservative by design
- Attempts to correlate ability to finance capital needs with ability to repay
- Issuance above capacity can cause erosion in credit rating
- Capacity to issue debt is finite for a given credit quality
- There is no precise guideline to maintain a particular credit rating

## Debt Affordability Measure

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- Definition of tax-supported debt:
  - Debt service payments are made or pledged to be made from funds derived from tax revenues/general government funds
  - Corresponds to the rating agency definition
- Tax-supported debt service < 5% blended revenues
- Two-year recommendation
- Goal is to keep ratio below 5%, while maintaining 2 years of capacity at end of 10-year horizon

## Blended Revenues

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### General Fund

Major Taxes

Corporate/Individual/Sales

Insurance Premium Taxes  
(2/3)

Misc. Taxes

Estate & Gift \*

Licenses & Permits

ABC/Beer Excise

Bank and Corporate  
Franchise

Tobacco Taxes

### Transfers

ABC Profits

Lottery Profits \*

### Transportation Trust Fund

Motor Fuels Tax

Priority Transportation Trust Fund

Vehicle Sales and Use Tax & License  
Fees

Aviation Fuels Tax, Rental Tax

Recordation Tax (2 cents)

Insurance Premium Taxes (1/3)

\* Estate and gift and lottery profits no longer included in general fund

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## Debt Service Includes:

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- Actual debt service on all outstanding tax-supported debt and long-term obligations, including capital leases, installment purchases and regional jail agreements
- Estimated debt service on authorized but unissued debt, based on certain issuance assumptions
- Terms and structure of future authorizations
  - 20 year bonds/25 years for transportation
  - Interest rate based on average last 8 quarters of Bond Buyer 11 Index
  - Level debt service/level principal amortization for GO bonds

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## Factors Affecting Debt Capacity

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- Revisions to revenue estimates
  - Downward revenue forecast
    - Fall 2008 forecast reduced revenues by \$18 billion over the 10 years of the model
    - February 2009 reforecast further reduced revenues by \$400 million in each FY 09 & 10
  - Lottery component removed - \$450 million/year
- Additional tax-supported debt authorized
  - \$2.7 billion authorized in 2008
  - \$751.3 million authorized in 2009
- Changes to issuance assumptions
  - Actual financing dates/terms vs estimated
  - Revisions to project spending schedules
  - Changes in interest rates

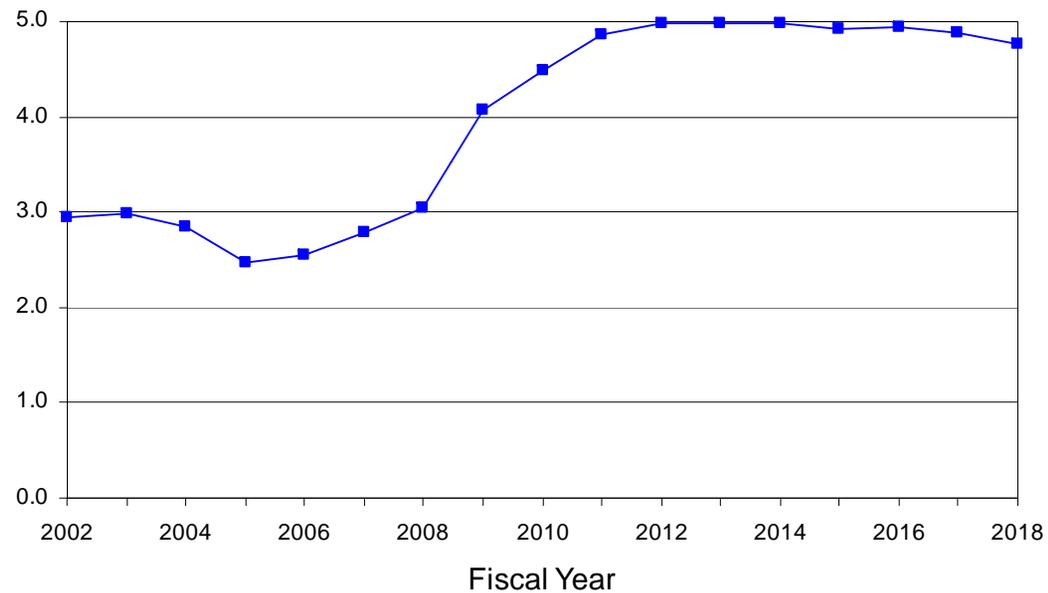
## Debt Capacity & Model Solutions

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- December 2008 DCAC Recommendation – an additional \$370 million could be authorized in each 2009 and 2010 (\$740 for biennium)
  - After February 2009 Mid-Session Re-forecast, capacity reduced to \$365 million in each 2009 and 2010
  - Debt Authorized in 2009: \$751.3 million
  - As the issuance assumptions for new authorizations are incorporated in the model, impact on debt capacity is often less dramatic
    - Issues may be spread over several years
  - Estimated debt capacity after 2009 Session – \$124.47 million could be authorized in each 2010 and 2011
  - Projections for future capacity
    - \$124.47 million in 2012; **\$96.24 million in 2013**
    - \$335.42 million in each 2014 and 2015
    - \$763.75 2016 - 2018
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## Tax-supported Debt Service as a Percent of Revenue\*

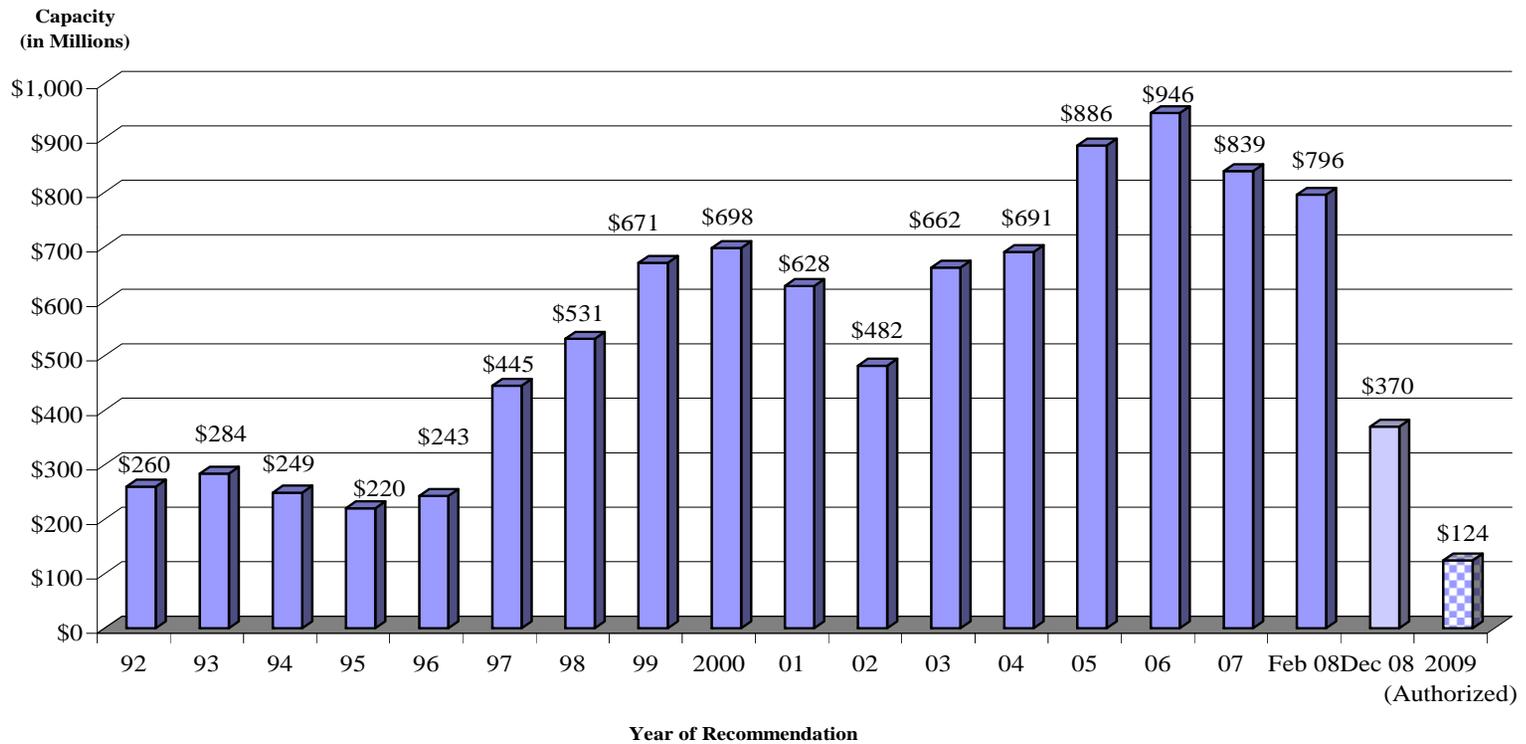
Percent



—■ Total Debt Service as a % of Revenue - Including Recommended Capacity

\*Revenue includes actual fiscal year revenues (2002-2008), February 2009 Mid-Session Official re-forecast for 2009 & 2010, and December 2008 Official forecast and certain revenue from the December 2008 Transportation Trust Fund forecast (2011-2018).

# Debt Capacity 1992-2008 and 2009 Authorizations

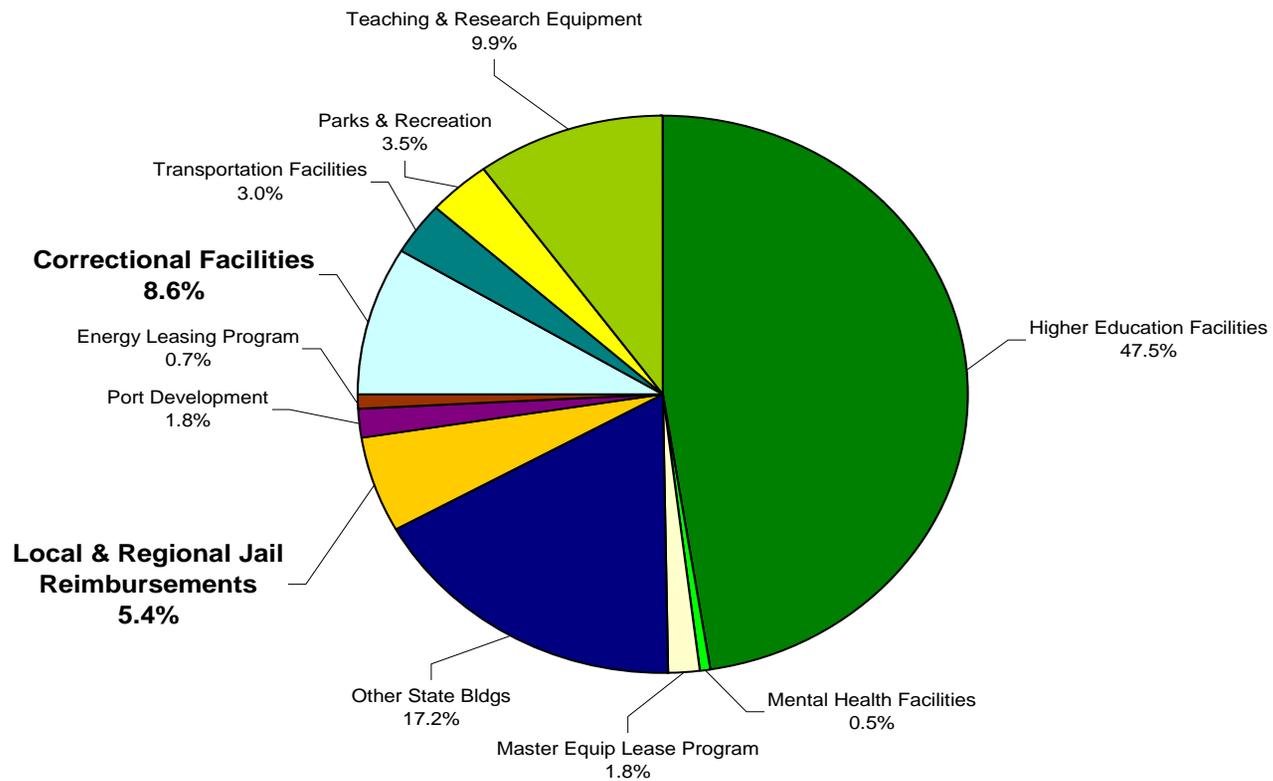


## 2009 Session Debt Authorization Issuance Assumptions (Dollars in Millions)

			Supplements & Critical Improvements	Supplements & Critical Improvements	VPBA Jails New	VPBA Jails Rescinded	Wallops Island Supplement	Total
	WOIF	VPBA/VCBA Supplants	VPBA	VCBA				
<b>2009</b>								
<b>Authorizations</b>	\$ 250.0	\$ 350.0	\$ 17.5	\$ 90.8	\$ 78.6	\$ (45.7)	\$ 10.0	\$ 751.3
<b>Assumed Issued:</b>								
2009			-	-	-	-	-	-
2010	137.6	250.0	-	-	14.6		10.0	412.2
2011	111.5	100.0	17.5	90.8	11.3	(10.4)	-	320.8
2012	0.9	-	-	-	-	-	-	0.9
2013-18					52.7	(35.27)		17.4
<b>Total</b>	<b>\$250.0</b>	<b>\$350.0</b>	<b>\$17.5</b>	<b>\$90.8</b>	<b>\$78.6</b>	<b>\$ (45.67)</b>	<b>\$10.0</b>	<b>\$751.3</b>

# Uses of New Tax-Supported Debt Issued FY 2004 - FY 2008

## \$3.2 Billion Total



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## Authorized Regional and Local Jails

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Loudoun County Adult Detention Center Phase 2	\$ 8,389,677
Virginia Beach City Jail Expansion & Renovation	11,302,749
Rappahannock Regional Jail Expansion	24,417,429
Riverside Regional Jail Expansion Phase 2	41,662,121
Western Virginia Regional Jail	46,806,831
Blue Ridge Regional Jail	31,664,995
Prince William /Manassas Regional Adult Detention Center (Jail Facility Phase I including renovations) (subject to Board of Corrections approval by June 1, 2009)	30,519,905
Meherrin River Regional Jail	50,000,000
New River Valley Regional Jail	29,868,567
Newport News Public Safety Renovations	428,125
Patrick County Jail	2,689,032
<b>Total Approved Capital Costs</b>	<b><u><u>\$ 277,749,431</u></u></b>

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# APPENDICES

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# Outstanding Tax-Supported Debt

## As of June 30, 2008 (Dollars in Thousands)

<b><i>Tax-Supported Debt Included in the Model</i></b>		
9(b) General Obligation Bonds		\$935,105
Bonds	\$935,105	
9(c) Revenue-Supported GOBs		\$554,180
Higher Education	\$487,296	
Transportation	59,294	
Parking Facilities	7,590	
Commercial Paper	0	
9(d) Obligations		\$4,408,726
Transportation Board	\$948,507	
Virginia Public Building Authority	1,719,455	
Port Authority	218,596	
Virginia Biotech Research Park	47,852	
Virginia College Building Authority 21st Century	899,572	
Virginia Aviation Board	2,195	
Virginia Public Broadcasting Board	8,520	
Regional Jail Reimbursement Agreements	9,980	
Transportation Notes Payable	12,325	
Capital Leases	250,250	
Installment Purchases	173,572	
Industrial Development Authority Obligations (VASIC)	14,640	
Economic Development Authority Obligations (Camp 30)	96,992	
Innovative Technology	6,270	
Total Tax-Supported Debt Included in Model		<u>\$5,898,011</u>
<b><i>Additional Long-Term Obligations Included in the CAFR But Not Included in the Model</i></b>		
Long-Term Obligations Not Included in Model		\$1,952,592
Compensated Absences	\$575,271	
Pension Liability	1,237,460	
OPEB Liability	119,658	
Other Long-Term Liabilities	20,203	
Total Tax-Supported Debt (CAFR Plus Subsequent Issuance)		<u><u>\$7,850,603</u></u>

# 2009 Session of the General Assembly

## New Tax Supported Debt Authorizations

Item	Agency	Short Title	FY 2009	FY 2010
C-19.05	The College of William and Mary in Virginia	Construct New School of Education		\$2,819,000
C-19.10	The College of William and Mary in Virginia	Expand Small Hall		\$2,248,000
C-19.20	Richard Bland College	Construct Science and Technology Center		\$1,000,000
C-36.55	George Mason University	New Construction: Construct Academic II and Parking, Arlington Campus		\$8,550,000
C-36.60	George Mason University	Renovate Thompson, West and Pohick		\$500,000
C-39.05	James Madison University	Construct Center for the Arts		\$5,918,000
C-5.30	General Services	Construct Education Wing Virginia War Memorial		\$6,500,000
C-60.05	Radford University	Renovate Heth Hall		\$7,076,000
C-63.05	University of Virginia	Construct Arts and Sciences Building		\$716,000
C-63.06	University of Virginia	Construct Alderman Road Housing, Phase II		\$8,900,000
C-63.07	University of Virginia Medical Center	Renovate and equip medical center facilities		\$40,000,000
C-63.10	University of Virginia's College at Wise	Construct Drama Building and Addition		\$735,000
C-81.55	Virginia Community College System	Construct Academic Building Phase III, Manassas Campus, Northern Virginia		\$6,059,000
C-91.05	Virginia Polytechnic Institute and State University	Construct Institute for Critical Technology and Applied Science, Phase II		\$3,981,000
C-134.25	Department of Corrections	Improvements: Replace Roofs Umbrella Project		\$5,000,000
C-14.30	Christopher Newport University	Renovate/Expand Gosnold Hall		\$2,345,000
C-145.05	Juvenile Justice	Correct Erosion, Pumunkey		\$1,704,000
C-176	Central Accounts	Central Maintenance Reserve		\$2,587,000
C-178.05	Central Accounts	Improve Wallops Flight Facilities		\$10,000,000
C-117	Department of Corrections	Construct Mount Rogers Prison		\$1,700,000
368 E	Environmental Quality	Water Quality Improvement Fund (Bay Bonds)**		\$250,000,000
280	Treasury Board	Rescinded authority for local and regional jail reimbursements		(\$45,667,295)
280	Treasury Board	Meherrin River Regional Jail*		\$50,000,000
280	Treasury Board	Prince William/Manassas Regional Adult Detention Center		\$14,620,293
280	Treasury Board	Patrick County Jail		\$2,689,032
280	Treasury Board	Western Virginia Regional Jail		\$11,330,024
C-181.10B & C	Central Accounts	Supplant Capital Projects	\$55,000,000	\$7,640,938
C-182.10	Central Accounts	Supplant Capital Projects	\$195,000,000	\$92,359,062
		<b>Total</b>	<b>\$250,000,000</b>	<b>\$501,310,054</b>

\*Chapter 781 prohibits reimbursement of costs before July 1, 2012

\*\* The Water Quality Improvement Fund bonds were conditionally authorized by the 2007 General Assembly Session.

# Public Safety Authorized Projects

<b>PROJECT #</b>	<b><u>PROJECT NAME</u></b>	<b>PROJECT #</b>	<b><u>PROJECT NAME</u></b>
10886	Dept. of State Police - Capital Maint. Reserve.	15200	DOC-Upgrade Elect. Various Facilities
17130	STARS-Department of State Police	15461	DOC - Women's Multi-Custody Corr.
17250	Dept of State Police Improve Renovate Adm HQ (1939) Bldg	15467-02	DOC - Sussex #2
14178	CJS VSP - Driver Training Facility	15755	DOC-Complete funding for St. Brides
15163	Dept of Emergency Mgt.-Cheatham Annex	15831	DOC - Brunswick Expand& Reno. Iso./Seg.
15989	Dept of Emergency Mgt - Capital Maint. Reserve.	16105	DOC - Powhatan Elec. Sys. Imp.
16976	DEM - Equip EOC	16111	DOC - Coffeewood Water Treat. Plant Upgrade
16320	Dept. of Forensic Science - Capital Maint. Reserve	16113	DOC - St. Brides Locking Sys. & Cell Door Repl.
17173	Dept. of Forensic Science Expand Labs in NFLB	16116	DOC - Southampton Interior Sec. Fence
17459	Dept. of Forensic Science NCNVA Forensic Lab	16426	DOC - Install Fire Safety Systems and Exits
15744	Dept of Military Affairs (GF Supplant)	16433	DOC - Install Auger/Grinder systems at various locations
15081	Dept. of Juvenile Justice - Capital Maint. Reserve.	16732	DOC-Replace roofs
15203	DJJ-Security Upgrades	16991	DOC- Upgrade Haynesville Wastewater Treatment
15206	DJJ-Improve Fire Safety System	16993	DOC-Deerfield Expansion
15757	DJJ - Close Cust. Juv. Correctional Fac.	16994	DOC-New Dairy and Dairy Processing Cen.
15837	DJJ - Wastewater System (Barrett & Beaumont)	17128	DOC-Pittsylvania Prison
16723	DJJ-Upgrade RDC	17261	DOC Upgrade Wastewater Treatment Plant
16724	DJJ-Hanover JCC Admin& Sec Control	17491	DOC- Medium Security Correctional Facility - Mount Rogers
16979	DJJ - Life Safety Systems repairs	17607	DOC Upgrade Powhatan Wastewater Treatment Plant
17255	DJJ Replace Classroom Trailers Beaumont	17608	DOC Replace Modular Units at Marion
17598	DJJ Replacing Housing Units Natural BJCC	17609	DOC Replace Prison Door Control Panels
17599	DJJ Construct Dry-storage Warehouse at CJCC	17610	DOC Construct New Kitchen & Dining Hall Halifax
17600	DJJ Remove Abandoned undergrnd. fuel tanks	17611	DOC Replace Sally Port at Southampton
17601	DJJ Upgrade Fire Alarm & Protection Systems.	17612	DOC Replace Plumbing & Heating Systems Field Units
17602	DJJ Replace Nat. Gas, Water & Sewage Lines	17613	DOC Install Elevated. Water Storage Tank Greenville
17603	DJJ Upgrade Mech, Electrical & Plumbing Systems FRADCC	17614	DOC Replace Windows
17604	DJJ Provide New DCE School HVAC Plant HJCC	17615	DOC Renovate Bathrooms Chesterfield
17605	DJJ Convert Facilities to Propane	17616	DOC Install Railings and Mesh at Greenville
17606	DJJ Connect Cottages to Emerg. Generators	17617	DOC Expand Sally Port Bldg. at Deerfield
10887	DOC- Maintenance Reserve	17620	DOC Upgrade St. Brides Water Treatment Plant
15167	DOC - Corr. Prison Site Land Acquisition	17637	DOC New Construct. Craigsville Wastewater TP