

Commonwealth Debt Capacity

Presentation to Senate Finance Committee



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Debt Capacity Advisory Committee Mandate

- The 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 during the next two years.
- The estimate is advisory and in no way binds the Governor or the General Assembly.
- The Committee's Debt Affordability Model views debt affordability over a ten-year period and reserves issuance capacity throughout the ten-year period.
- Debt affordability is one of four key factors assessed by rating agencies.

Debt Capacity Advisory Committee Assumptions

- Self-imposed restraint
- Conservative by design
- Attempts to correlate ability to address 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

- Definition of tax-supported debt:
 - Debt service payments are made or pledged to be made from funds derived from tax revenues
 - Corresponds to the rating agency definition
- Tax-supported debt service < 5% blended revenues
- Two-year recommendation
- Keep key ratio below 5%, and maintain 2 years of capacity at end of 10-year issuance horizon

Blended Revenues

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

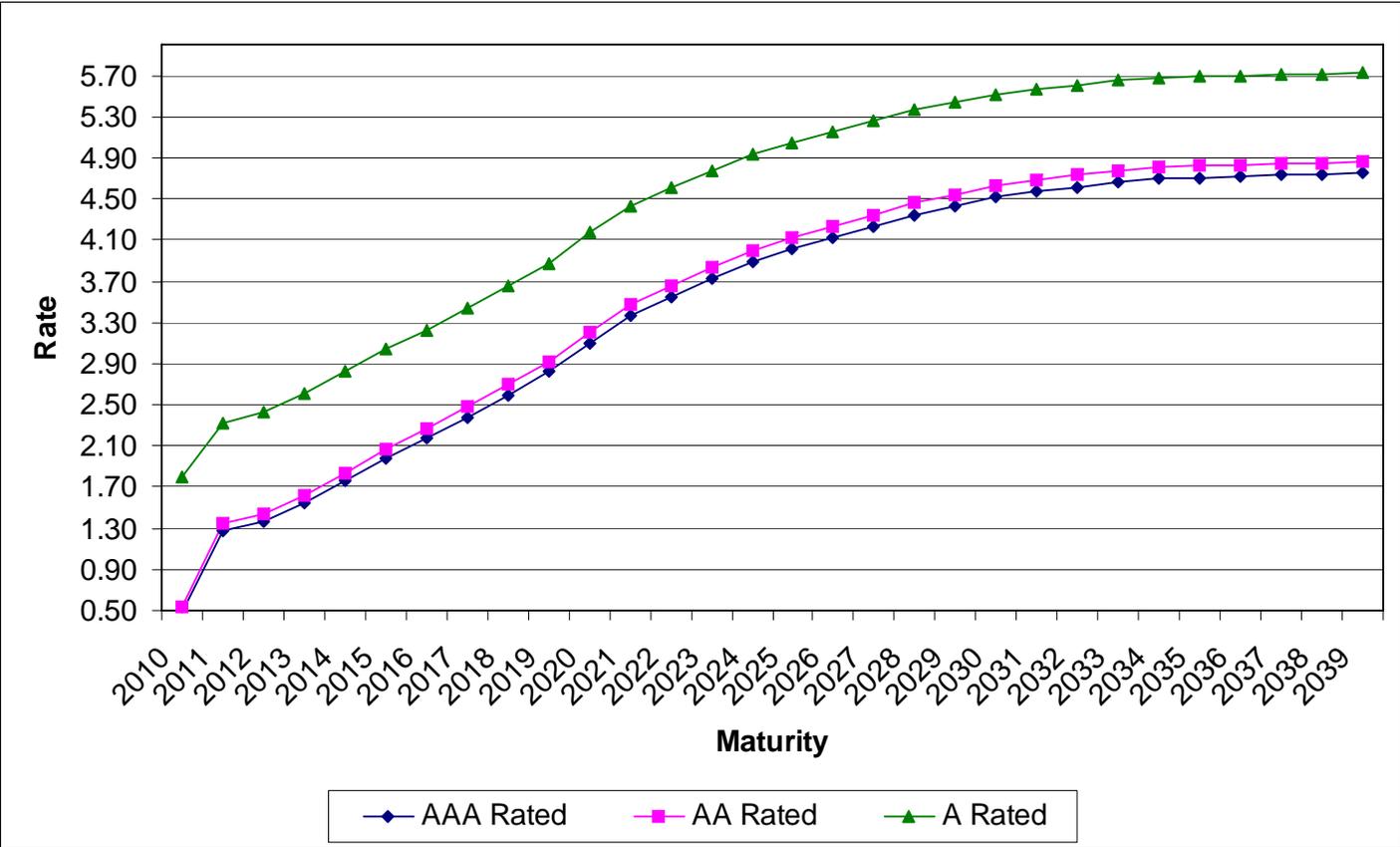
Debt Capacity Model

- Includes:
 - 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 or level principal amortization GO bonds

Factors Affecting Debt Capacity

- Revisions to revenue estimates
 - Downward revenue forecast - \$18 billion over 10 years compared to February 25, 2008 report
 - Lottery component removed - \$450 million/year
- Additional tax-supported debt authorized
 - \$2.7 billion authorized in 2008
- Changes to issuance assumptions
 - Actual vs. projected issuances
 - Revisions to draw schedules
 - Changes in interest rate assumptions

Rate Differential Between AAA, AA and A Rated Bonds



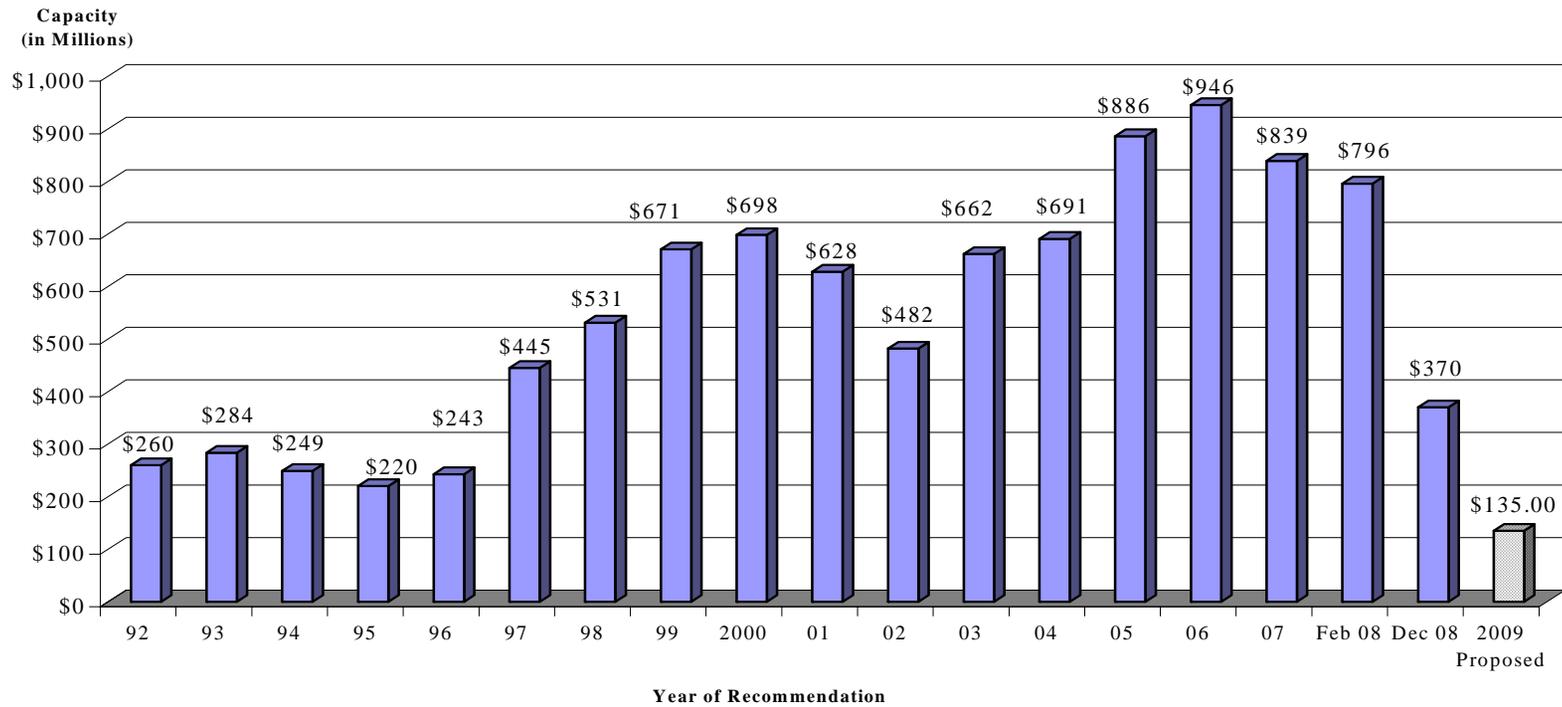
Source: Municipal Market Data as of 1/14/09

Debt Capacity Advisory Committee Recommendation December 17, 2008

- An additional \$370 million could prudently be authorized by the 2009 and 2010 Sessions of the General Assembly.
 - \$370 x 2 \$ 740.0 million
 - Governor's proposed debt (HB1600/SB850) \$ (700.6)million
 - Remaining Capacity \$ 39.4 million

- As proposed debt is incorporated in the model with its issuance assumptions, impact on debt capacity is less dramatic.
 - Results in \$135 million in capacity each year.

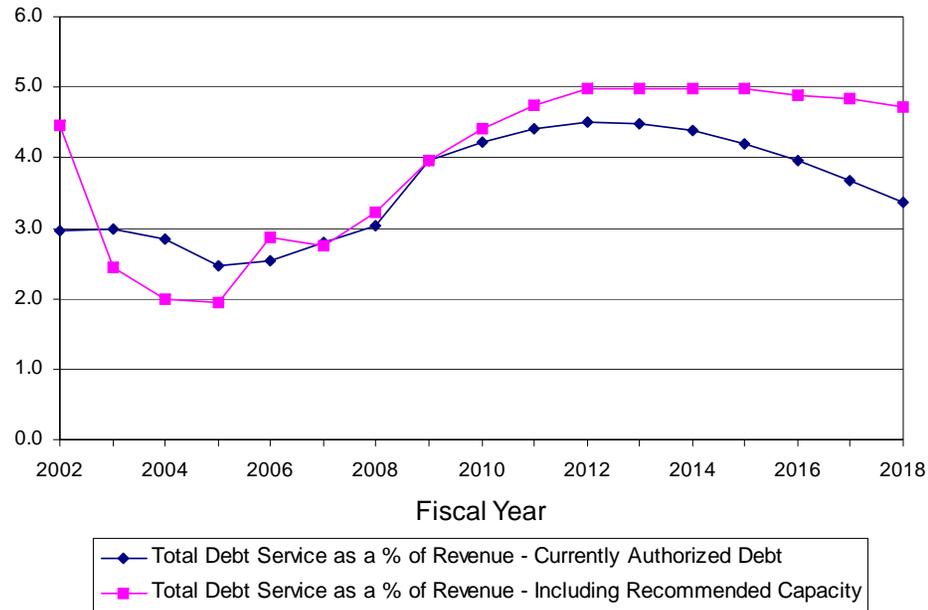
Debt Capacity 1992-2008 and 2009 Proposed Authorizations



Tax-Supported Debt Service as a Percent of Revenue*

(Includes projected debt service on debt authorized but unissued as of December 17, 2008)

Percent



* Revenue includes actual fiscal year revenues (2002-2008), the December 2008 Official forecast and certain revenue from the December 2008 Transportation Trust Fund forecast.

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

		9(c)		VCBA	VCBA						
		Higher		21st Century	21st Century	9(d)	NVID	Capital			
	9(b)	Education	VPBA	Equipment	Projects	Transportation	Transportation	Leases	VPA	Total	
Authorized & Unissued as of											
December 31, 2008	\$ 145.0	\$ 197.8	\$1,150.2	\$ 116.9	\$ 1,609.0	\$ 3,180.0	\$ 97.1	\$ 34.2	\$ 155.0	\$ 6,685.2	
Assumed Issued:											
2009	-	65.9	313.6	58.1	300.0	569.9	-	-	-	1,307.6	
2010	145.0	65.9	285.5	58.8	400.0	241.9	97.1	-	-	1,294.2	
2011	-	65.9	203.7	-	400.0	330.0	-	-	155.0	1,154.6	
2012-17	-	-	347.4	-	509.0	1,205.4	-	34.2	-	2,096.0	
Total	\$145.0	\$197.8	\$1,150.2	\$116.9	\$1,609.0	\$2,347.3	\$97.1	\$34.2	\$155.0	\$5,852.5	

(1) Remaining CTB revenue bonds to be issued in & after 2035 when Capital Projects Revenue Capacity is again available.

**Proposed for 2009 Session Debt Authorization
Issuance Assumptions
(Dollars in Millions)**

				Suppliments &		
			Equipment	Critical	Wallops	
		VPBA/VCBA	Additional	Improvements	Island	
	<u>WOIF</u>	<u>Supplants</u>	<u>VCBA</u>	<u>VPBA</u>	<u>Supplement</u>	<u>Total</u>
2009 Proposed						
Authorizations	\$ 250.0	\$ 350.0	\$ 82.2	\$ 8.4	\$ 10.0	\$ 700.6
Assumed Issued:						
2009		250.0	-	-	-	250.0
2010	137.6	100.0	82.2	8.4	10.0	338.2
2011	111.5	-	-	-	-	111.5
2012-17	0.9	-	-	-	-	0.9
Total	\$250.0	\$350.0	\$82.2	\$8.4	\$10.0	\$700.6

Comparison of Debt Ratios of States With At Least One AAA Rating

State	Net Tax Supported Debt (1) (\$ Millions)	Ranking Among 50 States (1)	Net Tax-Supported Debt as a % of 2006 Personal Income (1)	Ranking Among 50 States (1)	Net Tax-Supported Debt Per Capita (1)	Ranking Among 50 States (1)	2007 GDP By State (2) (\$ Millions)	Net Tax Supported Debt to GDP By State	Debt Service to Revenues (5)
Delaware (AAA/Aaa/AAA)	\$1,731	35	5.2%	7	\$2,002	6	\$60,118	2.88%	5.70%
Georgia (AAA/Aaa/AAA)	9,105	12	3.0%	20	954	23	396,504	2.30%	5.51%
Maryland (AAA/Aaa/AAA)	7,287	16	3.0%	21	1,297	16	268,685	2.71%	5.60%
Missouri (AAA/Aaa/AAA)	3,968	26	2.1%	31	675	33	229,470	1.73%	2.01%
North Carolina (AAA/Aaa/AAA)	8,140	13	2.8%	23	898	25	399,446	2.04%	3.40%
Utah (AAA/Aaa/AAA)	1,434	37	1.9%	35	542	36	105,658	1.36%	5.06%
Virginia (AAA/Aaa/AAA)	5,890	18	1.9%	34	764	29	382,964	1.54%	3.04%
Florida (AA+/Aa1/AAA) (3)	18,340	6	2.8%	24	1,005	20	734,519	2.50%	na
Minnesota (AAA/Aa1/AAA) (4)	4,569	22	2.3%	28	879	26	254,970	1.79%	na
South Carolina (AAA/Aaa/AA+)	4,256	23	3.3%	19	966	22	152,830	2.79%	na
Vermont (AA+/Aaa/AA+)	439	44	2.0%	33	707	32	24,543	1.79%	na
Triple-A Median	\$4,822		2.8%		\$898		\$254,970	2.0%	5.06%
Triple-A Average	\$5,790		2.7%		\$952		\$270,745	2.1%	4.33%
50-State Median (1)	na		2.6%		\$889		na	na	na
50-State Average (1)	na		3.2%		\$1,158		na	na	na

(1) Compiled from Moody's Investors Service, 2008 State Debt Medians, which uses FY2007 outstanding debt.

(2) U.S. Bureau of Economic Analysis, Gross Domestic Product by State, 2007.

(3) Florida: Fitch revised outlook to Negative from Stable on 1/9/09; Moody's revised outlook to Stable from Positive on 1/12/09.

(4) Minnesota: Fitch revised outlook to Negative from Stable on 12/11/08; Moody's revised outlook to Negative from Stable on 12/11/08; S&P revised outlook to Negative from Stable on 1/14/09.

(5) Source/Notes for debt service to revenues:

Delaware Series 2009 POS. Debt service as percent of budgetary general fund revenue, includes debt funded by budgetary Special Funds.

Georgia 2008 Debt Management Plan. Revenues equal treasury receipts. Debt includes G.O. and Guaranteed Revenue Bonds.

Maryland Capital Debt Affordability Committee Report, 2008. Revenues include general fund revenues, property taxes, transportation revenues, stadium-related revenues, GARVEE bonds, Bay Restoration Fund. Debt Service includes G.O., DOT, GARVEE, Stadium Authority, Bay Restoration Bonds, Capital Leases

Missouri 2008 CAFR. Revenues include general fund revenues, transportation, Missouri Road fund, environmental protection, non-major funds. Debt includes G.O. appropriation and highway gas-tax bonds.

North Carolina February 1, 2008 Debt Affordability Advisory Committee Report. 2008 CAFR not available.

Utah 2008 CAFR not available. Revenues include general fund revenues.

Virginia

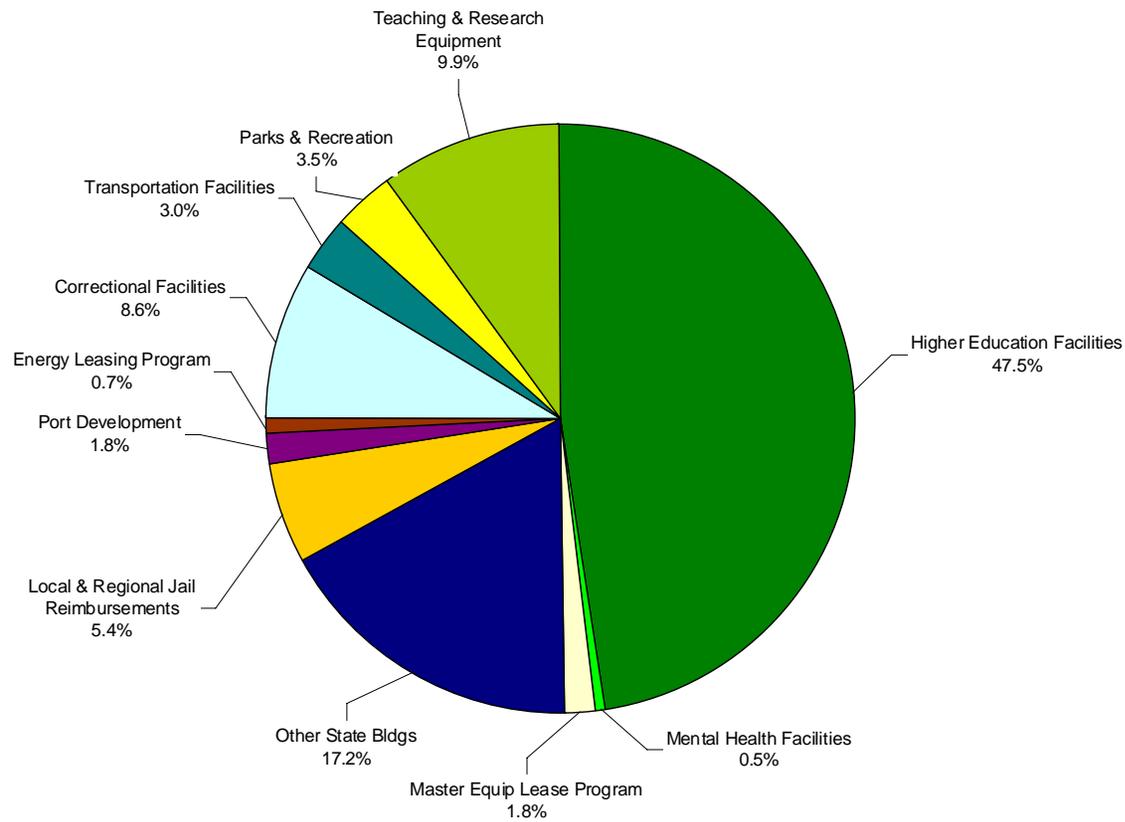
Debt Capacity Advisory Committee Report, 2008. Revenues include actual fiscal year revenues per Annual Report.

Comparison of Debt Policies for States With At Least One Triple A Rating

State	Ratings	Debt Management Plan	Description of Plan
Delaware	AAA/Aaa/AAA	Yes	Three debt affordability guidelines: (1) MADS on existing GO debt cannot exceed cash balances; (2) Annual GO debt limited to 5% of revenues and (3) MADS on all debt cannot exceed 15% of combined revenue.
Florida	AA+/Aa1/AAA	Yes	Statutory debt affordability model is updated annually and includes debt policies. Debt capacity is targeted at 6% for debt service-to-revenues and capped at 7%.
Georgia	AAA/Aaa/AAA	Yes	Formal debt management plan updated annually, maximum levels for key rates of debt to prior year revenues (7.0%), debt to personal income (3.5%) and debt per capita (\$1200).
Maryland	AAA/Aaa/AAA	Yes	Formal debt management plan includes debt as a percent of personal income (4.0%) and debt service to revenues (8.0%); statutory debt amortization schedule (years 3 to 15).
Minnesota	AAA/Aa1/AAA	Yes	Debt Management Policy developed for 20 years; debt service to general fund revenues (3.0%); G.O. debt to personal income (2.5%); net tax-supported debt to personal income (5.0%).
Missouri	AAA/Aaa/AAA	No	No formal written Guidelines
North Carolina	AAA/Aaa/AAA	Yes	Debt affordability model limits debt issuance and defines targeted ratios for state debt levels; net tax-supported debt service to general tax revenue targeted at 4%, not exceed 4.75%; net tax-supported debt to personal income targeted 2.5%, not to exceed 3.0%; debt retired in next 10 years target 55%, not decline below 50%.
South Carolina	AAA/Aaa/AA+	Yes	Constitutional debt limit of 6% with philosophy of retiring debt in 15 years.
Utah	AAA/Aaa/AAA	No	No debt management policy. Long standing practice of issuing GO bonds with relatively short maturities of 10 years or less.
Virginia	AAA/Aaa/AAA	Yes	Debt capacity advisory committee determines the amount of debt the Commonwealth can prudently authorize each year. Debt affordability model limits state tax-backed debt service to 5% of revenues.

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

\$3.2 Billion Total



Outstanding Tax-Supported Debt As of June 30, 2008 (Dollars in Thousands)

Tax-Supported Debt Included in the Model

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		\$5,898,011

***Additional Long-Term Obligations Included in the CAFR
But Not Included in the Model***

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)		\$7,850,603