Presentation on Debt Capacity to the Senate Finance Committee

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Debt Capacity Study

- At its meeting on December 18, 2009, the Debt Capacity Advisory Committee concluded there was no additional capacity for the authorization and issuance of debt beyond that which had already been authorized.
- These findings were primarily attributed to:
  - Significant decrease in forecast revenues.
  - Large bond authorizations in 2007 and 2008 ($3 billion each).
  - Prior legislative actions that (i) directed Lottery profits away from the General Fund, and (ii) repealed the estate tax.
- Committee recognized that Virginia's debt burden remained favorable relative to peer states, so requested a study by staff to determine:
  - If the 5% measure was still appropriate,
  - If one or more additional measures should be incorporated in the model,
  - If the composition of debt included in the model should be changed, and
  - How the model could be modified to smooth the dramatic fluctuations in capacity.

Actions of 2010 General Assembly

- The 2010 General Assembly authorized an additional $1.4 billion in debt financed projects subject the availability of debt capacity.
- The following language approved in Item C-85 of the 2010 Appropriation Act.

D. The Secretary of Finance shall prepare and submit a plan to the Governor and the Chairmen of the House Appropriations Committee and the Senate Finance Committee on or before the beginning of the 2011 General Assembly Session to schedule the issuance of debt for the projects authorized in this Item and for the projects authorized in Item C-84, Central Maintenance Reserve, Item 245 Higher Education Equipment Trust Fund, and Item C-86 Improvements: Energy Conservation. The plan prepared by the Secretary of Finance shall take into account the most recent recommendations of the Debt Capacity Advisory Committee released prior to the start of the 2011 General Assembly Session and make recommendations on the issuance of bonds for affected projects to stay at or below the limits on debt capacity established by the Debt Capacity Advisory Committee. Furthermore, the plan shall recommend a schedule for issuance of debt that funds projects in the following priority order:

Priority 1: Maintenance Reserve
Priority 2: Higher Education Equipment Trust Fund
Priority 3: Equipment for Previously Funded Projects
Priority 4: Construction funds for projects with completed planning
Priority 5: Improvements: Energy Conservation

Debt Capacity Study Recommendation

- The following are the primary study recommendations adopted by the Committee:

  - Blended revenues to include (i) 0.25% sales tax enacted in 2004 and never included in the model ($209 million in 2011), and (ii) certain recurring transfers to the General Fund (GF) from Non-general Fund (NGF) sources ($26.4 million annually).

  - Annual debt service carried in the model was reduced by the portion paid from NGF (i.e., Virginia College Building Authority bonds are paid in part from a NGF out-of-state student capital fee). For the current biennium, this represents $26 million each year.

  - Annual recommendation to be based on **average** capacity over the ten-year horizon of the debt capacity model rather than just the next two year solution.
    - Smoothes the effect of revenue fluctuations
    - Facilitates long-term capital planning
    - Same overall capacity over the ten-year horizon

Debt Capacity Results

- December 2010 report of the Debt Capacity Advisory Committee
  - An additional $363 million could prudently be authorized during each of fiscal years 2011 and 2012.

- Solution based on average annual capacity over the ten-year model horizon, while maintaining debt service at less than 5% of Blended Revenues.

- If all available capacity is utilized, the model shows that debt service will exceed 5% in some years.

- The highest level of debt service to revenues occurs in 2015 at 5.49%.

Debt Capacity Recommendation - December 2010

(Dollars in Millions)

Fiscal Year	Blended Revenues	[A] Actual Outstanding Debt Service as a % of Revenues	[B] Actual & Projected Debt Service as a % of Revenues	[C] Amount of Additional Debt that may Be Issued December 2010	[D] Total Debt Service as a % of Revenues	[C] Amount of Additional Debt that may Be Issued December 2009	[D] Total Debt Service as a % of Revenues December 2009
Actual 2008	17,076.40	3.12%	3.12%	**N/A**	3.12%	**N/A**	3.04%
Actual 2009	15,680.70	3.75%	3.75%	**N/A**	3.75%	**N/A**	3.75%
Actual 2010	15,871.20	3.99%	3.99%	**N/A**	3.99%	**0.00**	4.50%
2011	16,386.60	4.23%	4.88%	**0.00**	4.88%	**0.00**	4.98%
2012	17,192.53	3.88%	4.69%	**0.00**	4.69%	**0.00**	5.13%
2013	17,881.30	3.51%	4.96%	**0.00**	4.96%	**0.00**	5.03%
2014	18,693.10	3.24%	5.00%	**0.00**	5.00%	**425.00**	4.96%
2015	19,657.60	3.03%	4.93%	**173.95**	4.99%	**425.00**	4.99%
2016	20,565.90	2.75%	4.76%	**459.72**	4.99%	**650.00**	4.99%
2017	21,517.18	2.46%	4.56%	**597.38**	4.99%	**730.00**	4.99%
2018	22,451.66	2.12%	4.30%	**813.59**	4.99%	**742.78**	4.88%
2019	23,448.25	1.82%	4.00%	**794.74**	4.92%	**742.78**	4.74%
2020	24,490.00	1.60%	3.65%	**794.74**	4.77%	**-**	-
			10 Year Average	**$363.41**		**$371.56**	

[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 that could be issued, as a percentage of blended revenues

Debt Capacity Recommendation - December 2010

Average Solution

(Dollars in Millions)

Fiscal Year	Blended Revenues	[A] Actual Outstanding Debt Service as a % of Revenues	[B] Actual & Projected Debt Service as a % of Revenues	[C] Amount of Additional Debt that may Be Issued	[D] Total Debt Service as a % of Revenues	[C] Amount of Additional Debt that may Be Issued December 2009	[D] Total Debt Service as a % of Revenues December 2009
Actual 2008	17,534.60	3.04%	3.04%	**N/A**	3.04%	**N/A**	3.04%
Actual 2009	15,680.70	3.75%	3.75%	**N/A**	3.75%	**N/A**	3.75%
Actual 2010	16,085.70	3.94%	3.94%	**N/A**	3.94%	**0.00**	4.50%
2011	16,386.60	4.23%	4.88%	**0.00**	4.88%	**0.00**	4.98%
2012	17,192.53	3.88%	4.69%	**363.41**	4.85%	**0.00**	5.13%
2013	17,881.30	3.51%	4.96%	**363.41**	5.27%	**0.00**	5.03%
2014	18,693.10	3.24%	5.00%	**363.41**	5.45%	**425.00**	4.96%
2015	19,657.60	3.03%	4.93%	**363.41**	5.49%	**425.00**	4.99%
2016	20,565.90	2.75%	4.76%	**363.41**	5.43%	**650.00**	4.99%
2017	21,517.18	2.46%	4.56%	**363.41**	5.33%	**730.00**	4.99%
2018	22,451.66	2.12%	4.30%	**363.41**	5.16%	**742.78**	4.88%
2019	23,448.25	1.82%	4.00%	**363.41**	4.94%	**742.78**	4.74%
2020	24,490.00	1.60%	3.65%	**363.41**	4.66%	**-**	-
			Average	**$363.41**		**$371.56**	

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

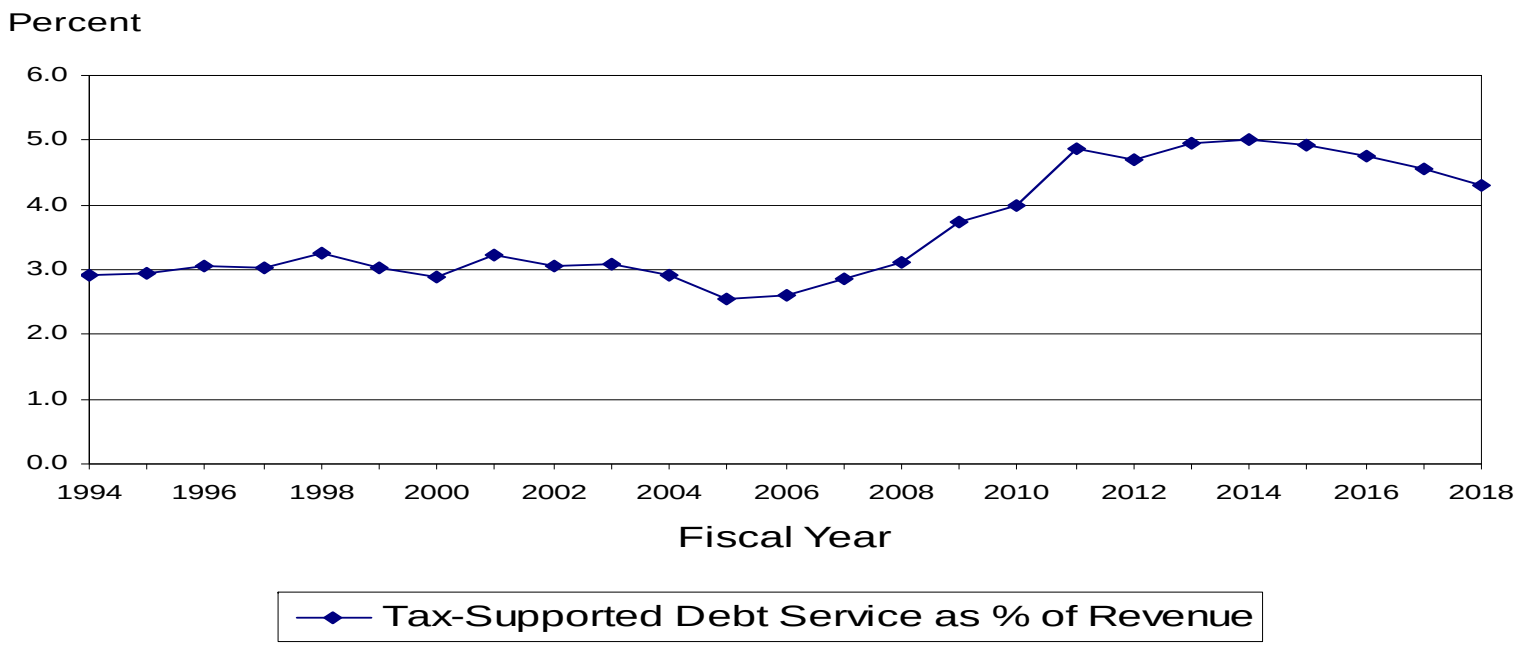
[B] Equals outstanding debt service and debt service on currently authorized but unissued debt as a percentage of blended revenues

[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 that could be issued, as a percentage of blended revenues

Tax-Supported Debt Service as a Percent of Revenue*

Includes projected debt service on debt authorized but unissued as of December 17, 2010



* Revenue includes actual fiscal year revenues (1994-2010), the December 2010 forecast and certain revenue from the December 2010 Transportation Trust Fund forecast.

Additional Debt Issuances

$ in Millions

	Prior Model					Revised Model				
Projects	**FY11**	**FY12**	**FY13**	**FY14**	**Total**	**FY11**	**FY12**	**FY13**	**FY14**	**Total**
H.E. Equipment Trust	$ -	$ 112.1	$ 56.1	$ 56.1	$ 224.3	$ -	$ 112.1	$ 56.1	$ 56.1	$ 224.3
Chapter 874 Projects:										
Maintenance Reserve	65.0	50.0	60.0	60.0	235.0	68.5	55.1	60.0	60.0	243.6
Equipment for Funded Projects	26.3	-	84.5	40.0	150.8	26.3	44.5	40.0	40.0	150.8
New Construction and Energy Conservation[a]	-	-	14.4	58.9	73.3	-	-	14.4	58.9	73.3
Subtotal	91.3	50.0	158.9	158.9	459.1	94.8	99.6	114.4	158.9	467.7
Transportation CPR	493.0	500.0	314.3	300.0	1,607.3	707.0	600.0	600.0	600.0	2,507.0
Total	$ 584.3	$ 662.1	$ 529.3	$ 515.0	$ 2,290.7	$ 801.8	$ 811.7	$ 770.5	$ 815.0	$ 3,199.0
Remaining Capacity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$321.5	$321.5	$321.5	$964.5

[a] $1,122.8 million appropriated in 2010 Appropriation Act awaiting release.

Summary of Differences

- The revisions to model will allow:
  - Additional maintenance reserve projects to go forward ($8.6 million).
  - Equipment for buildings coming on-line in FY2012 ($44.5 million) can be issued in a timely manner, not delayed to FY2013.
  - Transportation CPR bond issuance cap can be raised to $600 million per year from $300 million per year, and
  - There is $321.5 million in additional debt capacity per year starting in FY2012 to begin to address the backlog of construction projects $1.2 billion awaiting release.