



# Overview of Debt and Review of Debt Capacity

A Briefing for the  
Senate Finance Committee

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# Overview of Debt and Review of Debt Capacity

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- Framework for Commonwealth Debt
- Overview of 9(b) Debt
- Overview of 9(c) Debt
- Overview of 9(d) Debt
- Tax Supported Debt Authorizations
- Debt Capacity Model
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# Framework for Commonwealth Debt Constitutional Basis - Article X

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<b>Type</b>	<b>Purpose</b>	<b>G.A. Action</b>	<b>Referendum</b>	<b>Security</b>
9(a)	Emergencies, Deficits, Redeem Obligations	General Auth.	No	GO
9(b)	Capital Projects	Project Auth.	Yes	GO
9(c)	Rev. Producing Capital Projects	2/3 Majority Project Auth.	No	Revs+GO
9(d)	Anything Else	General Auth.	No	Revs/App

# OVERVIEW OF 9(b) DEBT

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- 9(b) General Obligation Debt
  - Secured by a pledge of the full faith and credit of the Commonwealth
  - AAA rated; lowest cost of borrowing
- All 9(b) debt must:
  - Mature within a period not to exceed the estimated useful life of the projects or thirty years, whichever is shorter
  - Be structured with level principal payments
- Pursuant to constitutional restrictions, the maximum additional 9(b) debt that may be authorized during the 2016 General Assembly session (subject to referendum): \$4.6 billion

# OVERVIEW OF 9(b) DEBT (Continued)

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- 9(b) debt is for capital projects authorized by an affirmative vote of the majority of the General Assembly members and approved by the voters
  - Projects must be distinctly specified in the authorizing law
    - **Acceptable:** Community College System: Major Mechanical Systems System wide; XX University: Renovate/Alter Portion of Four Academic Buildings; Conservation and Recreation: Acquisition of land for Natural Area preserves
    - **Not Acceptable:** Construct academic buildings at various institutions of higher education; repair roofs at various institutions of higher education
  - Law shall specify capital projects constituting a single purpose
    - For example, separate bills would be required for higher education projects, natural resources projects (such as parks), transportation, public safety, mental health

# OVERVIEW OF 9(b) DEBT (Continued)

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- 1992 Referendum
  - Total authorized \$612,944,000
    - Higher Education \$472,406,000
    - Parks \$95,365,000
    - Mental Health \$45,173,000
  
- 2002 Referendum
  - Total authorized \$1,019,528,645
    - Higher Education \$900,488,645
    - Parks \$119,040,000

# Overview of 9(c) Debt

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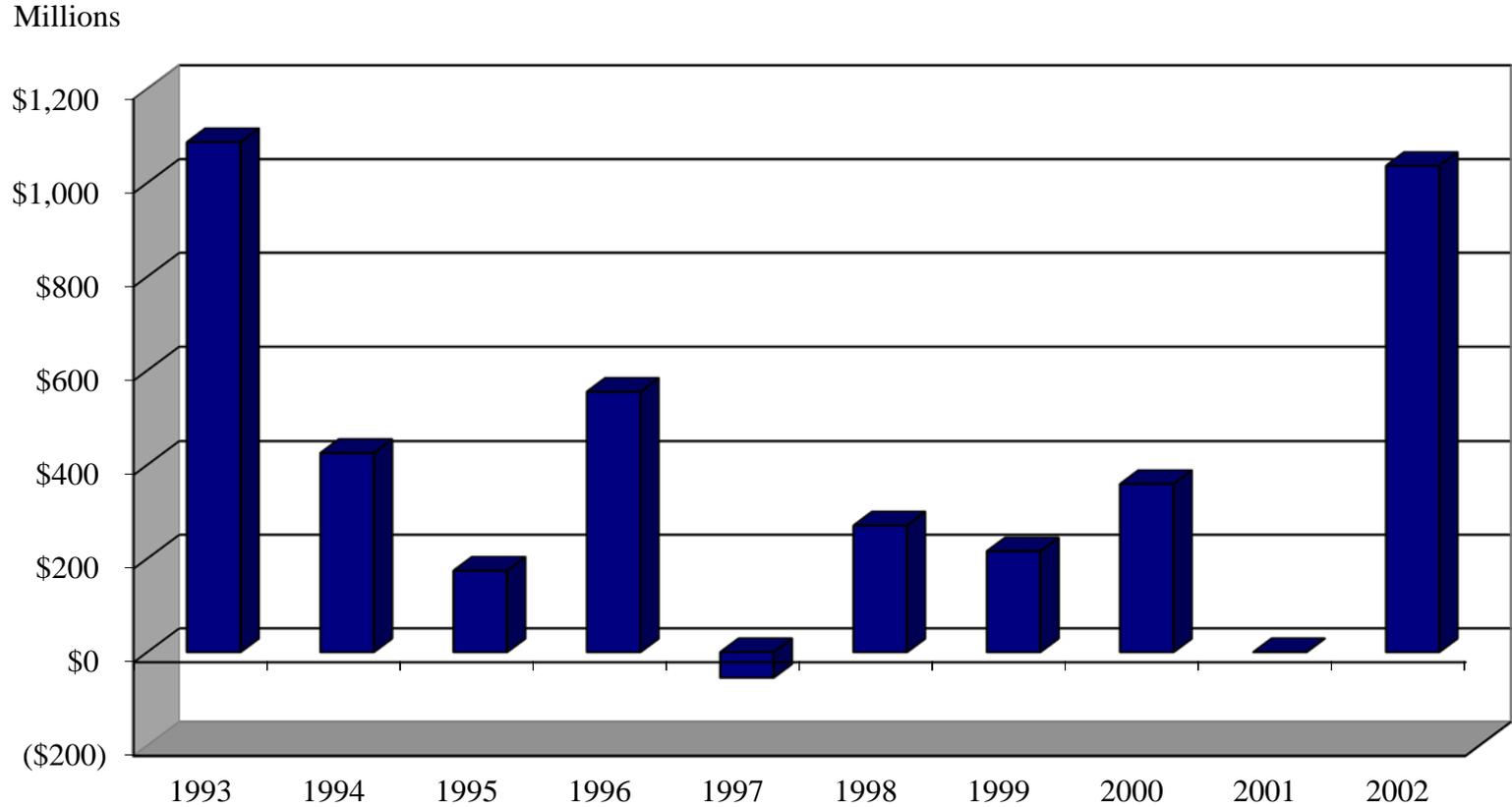
- 9(c) General Obligation Debt
  - Revenue producing projects (dorm and dining)
  - Paid by revenues from project, but also backed by Commonwealth's G.O. pledge
  - "AAA" rating due to G.O. pledge provides lower interest rates
  - Tax-supported debt, but not included in DCAC model, doesn't impact debt capacity
  - Provides investors with diverse Virginia debt

# Overview of 9(d) Debt

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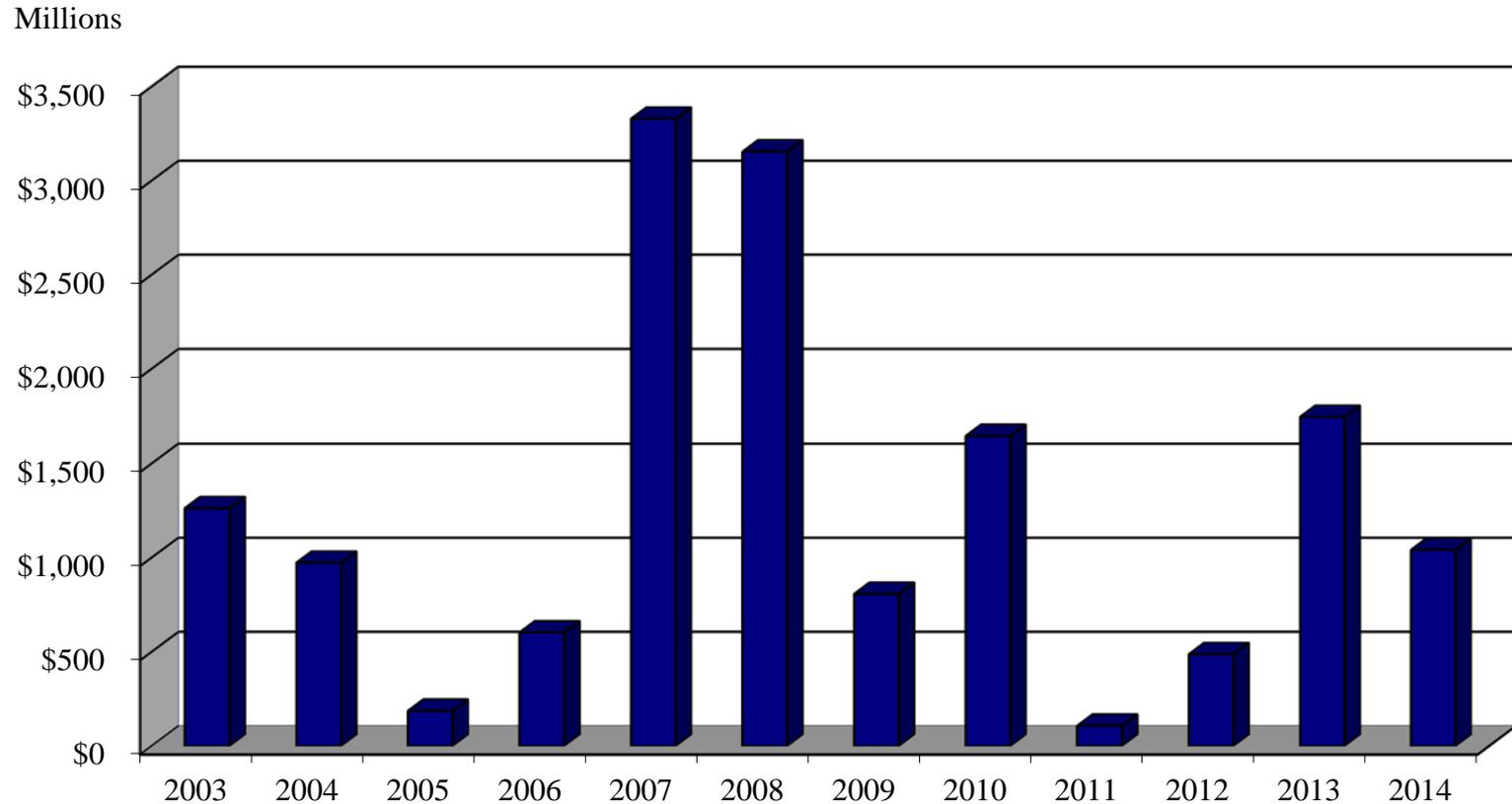
- 9(d) Appropriation-Backed Debt
  - Virginia College Building Authority (“VCBA”) 21<sup>st</sup> Century Program, Virginia Public Building Authority (“VPBA”), Virginia Port Authority (“VPA”) and Commonwealth Transportation Board (“CTB”)
  - Educational & General projects
  - “AA+” rated based on appropriation-backed 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
    - Secured by general revenues of the institutions
  - Not considered tax-supported debt

# Tax Supported Debt Authorizations 1993- 2002



# Tax Supported Debt Authorizations 2003- 2014

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# 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
    - 9(d) VCBA (21<sup>st</sup> Century and Equipment), VPBA, VPA, and 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
  - Sum Sufficient Appropriation issued by Virginia Public School Authority
  - 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 included in model is based on
  - DPB draw schedules and information from agencies
  - Long-term interest rates
  - Short-term interest rates
  - Level debt service payments, except 9(b) G.O. which is amortized on a level principal basis

# Debt Capacity Model – Measure and Inputs (Continued)

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- Factors Affecting Debt Capacity
  - Revisions to revenue estimates
  - Additional tax-supported debt authorized
  - Changes to issuance assumptions
    - Actual financing dates/terms vs. estimated
    - Revisions to project spending schedules
    - Changes in interest rates

## DCAC Recommendation – December 2014

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- 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

# October 2015 Unofficial Update

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- October model results unofficial and for information purposes only
- The model is updated for:
  - New tax-supported debt authorized in 2015 General Assembly session
  - Actual debt service on debt issued through June 30, 2015
  - Actual General Fund revenue through June 30, 2015
  - Department of Taxation August working revenue forecast
- The October unofficial model solution shows that up to an additional \$543 million could prudently be authorized and issued over each year of the 10 year horizon of the model
- The DCAC is scheduled to meet again on December 18

# October 2015 Model Unofficial Update Schedule of Issuance Assumptions for Currently Authorized & Unissued Debt

As of October 5, 2015

(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>
<b>Authorized &amp; Unissued as of June 30, 2015</b>	\$ -	\$ 773.1	\$ 138.4	\$ 1,005.7	\$ 1,187.3	\$ 24.7	\$ 595.7	\$ -	\$ 3,724.9
Issued Jul 1 - Oct 5, 2015	\$ -	\$ -	\$ 56.8	\$ 233.3	\$ -	\$ -	\$ -	\$ -	\$ 290.1
<b>Assumed Issued:</b>									
FY 2016	\$ -	\$ 272.6	\$ 74.1	\$ 328.0	\$ 300.0	\$ -	\$ -	\$ -	\$ 974.7
FY 2017	\$ -	\$ 181.8	\$ -	\$ 428.5	\$ 284.1	\$ -	\$ -	\$ -	\$ 894.4
FY 2018	\$ -	\$ 105.2	\$ -	\$ -	\$ 122.9	\$ -	\$ -	\$ -	\$ 228.1
FY 2019	\$ -	\$ 93.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 93.5
FY 2020	\$ -	\$ 93.5	\$ -	\$ -	\$ 355.0	\$ -	\$ 150.9	\$ -	\$ 599.4
FY 2021	\$ -	\$ 26.7	\$ -	\$ -	\$ 125.3	\$ -	\$ 249.1	\$ -	\$ 401.1
FY 2022	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 2023	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 195.7	\$ -	\$ 195.7
FY 2024	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FY 2025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Planned</b>	\$ -	\$ 773.1	\$ 74.1	\$ 756.5	\$ 1,187.3	\$ -	\$ 595.7	\$ -	\$ 3,386.7
<b>Subtotal Issued &amp; Planned</b>	\$ -	\$ 773.1	\$ 130.9	\$ 989.8	\$ 1,187.3	\$ -	\$ 595.7	\$ -	\$ 3,676.8
<b>Authorized Debt</b>									
Assumed Unissued <sup>(1)</sup>	\$ -	\$ -	\$ 7.5	\$ 15.9	\$ -	\$ 24.7	\$ -	\$ -	\$ 48.1

<sup>1</sup> Assumed funded from premium from bonds sold and for NVTD authorized debt is assumed not to be issued.

# Appendix

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- Description of Debt Options
- October 2015 Unofficial Model – Base Solution
- October 2015 Unofficial Model - Average Solution

# Appendix

## Description of Debt Options

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



# Appendix

## October 2015 Model Unofficial Update – Base Solution

(Dollars in Millions)

*Debt Capacity Maximum Ratio*

Debt Service as a % of Revenue =

**5.0%**

Base Model Solution - October 2015 Model

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]		
	Blended	Base	Annual	Actual	Annual	Actual &	Net	Amount of	Debt Service	Remaining	Total		
Fiscal Year	Revenues	Capacity	Payments for	Outstanding	Payments for	Projected	Capacity	Additional	on Amount of	Capacity	Debt Service		
		to Pay	Debt Service	Debt Service	on All Planned	Debt Service	to Pay	Debt that may	Be Issued	to Pay	as a % of		
		Debt Service	on Debt Issued	as a % of	Debt Issuances	as a % of	Debt Service	Be Issued	Be Issued	Debt Service	Revenues		
2006	16,520.10	826.01	419.01	2.54%	N/A	2.54%	407.00	N/A	N/A	407.00	2.54%		
2007	17,282.60	864.13	482.33	2.79%	N/A	2.79%	381.80	N/A	N/A	381.80	2.79%		
2008	17,528.90	876.45	532.95	3.04%	N/A	3.04%	343.50	N/A	N/A	343.50	3.04%		
2009	15,680.90	784.05	587.33	3.75%	N/A	3.75%	196.72	N/A	N/A	196.72	3.75%		
2010	16,085.70	804.29	633.45	3.94%	N/A	3.94%	170.83	N/A	N/A	170.83	3.94%		
2011	16,751.10	837.56	693.64	4.14%	N/A	4.14%	143.92	N/A	N/A	143.92	4.14%		
2012	17,787.10	889.36	747.02	4.20%	N/A	4.20%	142.34	N/A	N/A	142.34	4.20%		
2013	18,626.30	931.32	820.77	4.41%	N/A	4.41%	110.55	N/A	N/A	110.55	4.41%		
2014	18,527.90	926.40	835.53	4.51%	N/A	4.51%	90.86	N/A	N/A	90.86	4.51%		
2015	20,026.30	1,001.32	897.38	4.48%	N/A	4.48%	103.93	N/A	N/A	103.93	4.48%		
2016	20,332.70	1,016.64	904.30	4.45%	88.79	4.88%	23.54	0.00	0.000	23.54	4.88%		
2017	20,942.20	1,047.11	914.18	4.37%	161.70	5.14%	(28.77)	0.00	0.000	(28.77)	5.14%		
2018	21,644.40	1,082.22	860.18	3.97%	213.88	4.96%	8.16	57.28	4.166	3.99	4.98%		
2019	21,963.30	1,098.17	806.78	3.67%	221.52	4.68%	69.86	291.97	25.403	44.45	4.80%		
2020	22,699.80	1,134.99	765.16	3.37%	260.38	4.52%	109.45	761.67	80.803	28.64	4.87%		
2021	23,498.60	1,174.93	745.03	3.17%	290.91	4.41%	138.99	800.05	138.995	0.00	5.00%		
2022	24,332.00	1,216.60	699.54	2.87%	292.85	4.08%	224.21	878.83	202.917	21.29	4.91%		
2023	25,399.43	1,269.97	675.80	2.66%	296.65	3.83%	297.52	878.83	266.838	30.68	4.88%		
2024	26,514.16	1,325.71	648.87	2.45%	285.43	3.52%	391.41	878.83	330.760	60.65	4.77%		
2025	27,678.31	1,383.92	624.87	2.26%	285.43	3.29%	473.62	878.83	394.682	78.94	4.71%		
								10 Year Average:		\$542.63	2 Yrs Excess Avg Capacity:		\$1,085.26



# Appendix

## October 2015 Model Unofficial Update – Average Solution

(Dollars in Millions)

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue =

**5.0%**

Base Model Average Solution - October 2015 Model

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	
	Blended	Base	Annual	Actual	Annual	Actual &	Net	Amount of	Debt Service	Remaining	Total	
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		to Pay	Debt Service	Debt Service	on All Planned	Debt Service	to Pay	Debt that may	Debt that may	to Pay	as a % of	
		Debt Service	on Debt Issued	as a % of	Debt Issuances	as a % of	Debt Service	Be Issued	Be Issued	Debt Service	Revenues	
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2017	20,942.20	1,047.11	914.18	4.37%	161.70	5.14%	(28.77)	542.63	39,468	(68.24)	5.33%	
2018	21,644.40	1,082.22	860.18	3.97%	213.88	4.96%	8.16	542.63	78,936	(70.78)	5.33%	
2019	21,963.30	1,098.17	806.78	3.67%	221.52	4.68%	69.86	542.63	118,405	(48.55)	5.22%	
2020	22,699.80	1,134.99	765.16	3.37%	260.38	4.52%	109.45	542.63	157,873	(48.43)	5.21%	
2021	23,498.60	1,174.93	745.03	3.17%	290.91	4.41%	138.99	542.63	197,341	(58.35)	5.25%	
2022	24,332.00	1,216.60	699.54	2.87%	292.85	4.08%	224.21	542.63	236,809	(12.60)	5.05%	
2023	25,399.43	1,269.97	675.80	2.66%	296.65	3.83%	297.52	542.63	276,277	21.25	4.92%	
2024	26,514.16	1,325.71	648.87	2.45%	285.43	3.52%	391.41	542.63	315,745	75.66	4.71%	
2025	27,678.31	1,383.92	624.87	2.26%	285.43	3.29%	473.62	542.63	355,214	118.40	4.57%	
								10 Year Average:		2 Yrs Excess Avg Capacity:		\$1,627.89
								\$542.63				

