House Appropriations Committee

Debt Capacity Update

February 10, 2016

Presentation Outline

- Basis of Commonwealth's Debt Capacity
- Current Status of Commonwealth Debt Capacity
- Comparative Data
- House Bill 1344 (Jones)

Presentation Outline

- ✓ **Basis of Commonwealth's Debt Capacity**

- ☐ Current Status of Commonwealth Debt Capacity

- ☐ Comparative Data

- ☐ House Bill 1344 (Jones)

Virginia Constitution

- Article X, Section 9 provides for the issuance of debt
  - Sections 9(a), 9(b) & 9(c) provide the Full Faith and Credit of the Commonwealth
- 9 (a) debt is reserved to meet emergencies
- 9 (b) debt is often referred to as general obligation or GO debt and requires voter approval
- 9 (c) debt is for revenue-producing capital projects and is authorized by 2/3 vote of the General Assembly
  - Self-supporting in nature; the Governor is required to certify that pledged revenues are sufficient
  - For example, dorm and dining hall projects
- Because it has the Full Faith and Credit of the Commonwealth, this debt receives the highest (AAA) rating from the three rating agencies (Moodys, S & P and Fitch)

Virginia Constitution

- Section 9(d)
  - Authorized by the General Assembly
  - Does not provide Full Faith and Credit
    - Rated as AA debt but actual interest rate has been very close to AAA-rated debt in recent years
    - Repaid from both GF and NGF including auxiliary enterprises and local governments
  - Issued by Commonwealth agencies, institutions and authorities. For example,
    - Virginia College Building Authority (VCBA)
    - Virginia Public Building Authority (VPBA)
    - Commonwealth Transportation Board
    - Virginia Housing Development Authority

Debt Limitations

- Constitution sets limits for 9(a), 9(b) and 9(c) debt
- 9(b) GO debt limits:
  - Total 9(b) GO debt is limited to approximately 115% of average annual income tax and sales tax revenues of prior three fiscal years
  - General Assembly can only authorize up to 25% of the total 9(b) GO limit over a four-year period
  - Debt must mature at the lower of either 30 years or useful life of the project
  - Debt payments are structures with level principal
- 9(c) debt is limited to the same 115% of average annual income tax and sales tax revenues of prior three fiscal years
- 9(d) debt technically has no limitations placed on it by the Virginia Constitution

Commonwealth Policy on Debt Capacity

- In the early 1990s the Commonwealth developed its current debt policy
  - 1990: Appropriation Act required development of a plan for the coordination of the Commonwealth's borrowing
  - 1991: Executive Order 38 established the Debt Capacity Advisory Committee (DCAC)
  - 1994: DCAC statutorily established (Chapter 43, 1994 Acts of Assembly)
- DCAC established the policy of limiting tax-supported debt to 5% of revenues
  - Debt service payments are made or ultimately pledged to be made from general funds
  - Corresponds to rating agency definition
- In 2010, the DCAC retained the 5% limit but presents capacity using the ten-year average capacity ("smoothing" method)
- All three rating agencies mention the DCAC as a positive debt management practice

Debt Capacity Advisory Committee

- Comprised of:
  - Secretary of Finance
  - State Treasurer
  - DPB Director
  - Auditor of Public Accounts
  - JLARC Director
  - Two citizen members appointed by the Governor
  - State Comptroller
  - Staff Directors for House Appropriations and Senate Finance Committees
- Committee annually reviews Commonwealth's tax-supported debt and submits to the Governor and to the General Assembly an <u>advisory, non-binding estimate</u> of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium

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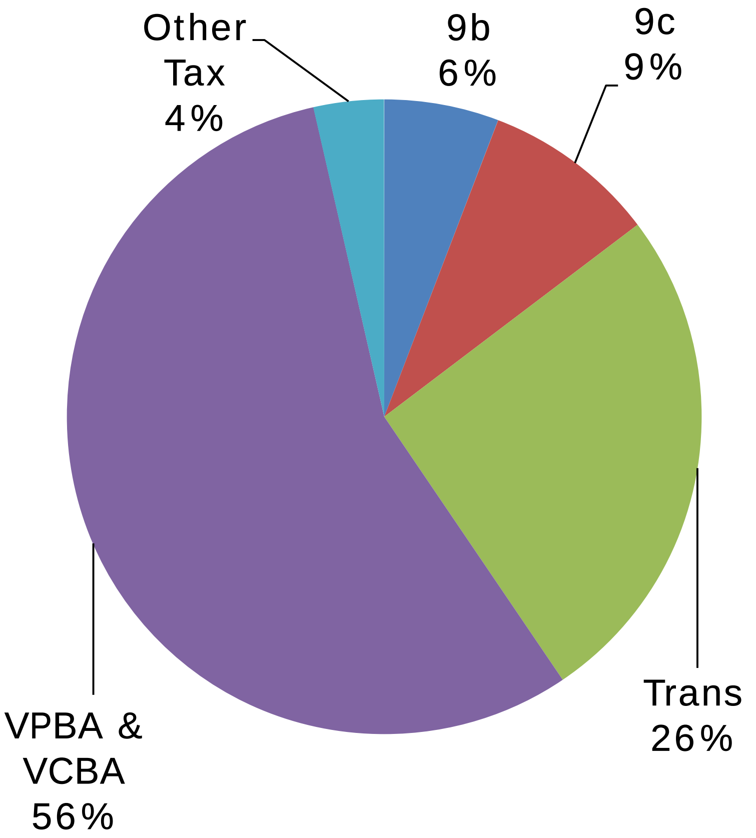
Commonwealth Debt Capacity

DCAC Model

- DCAC Model using the following assumptions over a ten-year planning horizon:
  - Actual debt service on all issued tax-supported debt including capital leases and regional jails
  - Currently authorized but not yet issued tax-supported debt
  - 20-year bonds with level debt service payments except for 9(b) which assumes level principal
  - Blended revenues which include general fund, state revenues in the TTF, & ABC profit transfers
    - Official forecasts excluding Lottery funds
    - TTF revenues do not include Highway Maintenance & Operating Funds, Federal grants, or toll revenues
  - Interest rates for all GO debt is based on the **Bond Buyer 11 Bond Index**
    - 9(d) debt assumed at 25 basis points higher

Current Outstanding Tax-Supported Debt as of June 30, 2015

- Total outstanding tax-supported debt in the debt capacity model is about $11 billion
- Tax-supported debt is where the debt service payment is made or ultimately pledged to be made from general government funds & corresponds to the rating agency definitions



Source: Debt Capacity Advisory Committee

Debt Authorized but Not Issued

as of December 2015

- As of December 2015, there was approximately $3.7 billion in all forms of tax-supported debt authorized but not yet issued

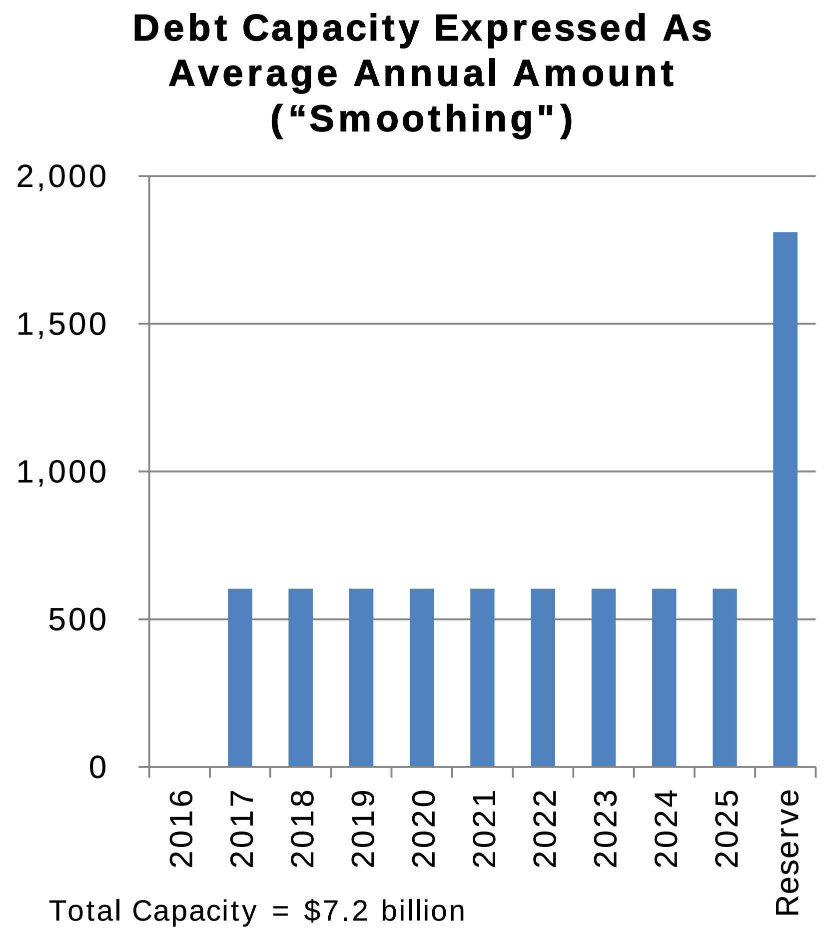
  - About 49% of the debt in pipeline is transportation related
    - $1.2 billion in 9(d) transportation bonds
    - $595.7 million for Route 58
    - $24.7 million No. Va. Transportation District Program

  - $1.9 billion in Virginia Public Building Authority (VPBA) & Virginia College Building Authority (VCBA) debt
    - This includes about $139 million of HEETF equipment allocations and project equipment

DCAC Model Results

December 2015

- The chart on the right shows the ten-year debt capacity under the "smoothing" approach adopted by the DCAC
- Annual debt capacity is about $603 million per year
- Total debt capacity is $7.2 billion over the ten-year period which includes holding $1.8 billion the total capacity in reserve
- This assumes all previously authorized debt as part of the calculation
- Debt capacity is impacted by changes in revenue and interest rates
  - $100 million change in revenue per year impacts the debt capacity by about $5.8 million per year
  - Interest rate changes of 100 basis points can impact the debt capacity by about $60 million



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Net Tax-Supported Debt as Percent of State Domestic Product

- According to the Moody's 2015 State Debt Medians Report, since 2011, Virginia's NTSD as percent of State GDP has ranged between 2.41% and 2.51%
  - That places Virginia about 25^{th} in the nation
- The average of all states has ranged between 2.67% and 2.92% since 2011

Net Tax-Supported Debt as Percent of Personal Income and Per Capita

- According to the Moody's 2015 State Debt Medians Report, Virginia's NTSD as percent of Personal Income is 2.8%
  - That places Virginia about 21st or 22nd in the nation
  - The average of all states is 3.1%
- Virginia's NTSD Per Capita is $1,356 or 19th in the nation
  - The average per capita NTSD is $1,419

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Capital Bond Program

- HB 1344 (Jones) provides for $1.5 billion in Virginia Public Building Authority and Virginia College Building Authority bonds
- The projects contained in the bill are:
  - Projects previously approved by the General Assembly for planning ($1.0 billion)
  - $39 million to supplement projects currently authorized for construction
  - $15.6 million for equipment for recently completed projects
  - $350 million to continue improvements at ports
  - $59 million to continue the wastewater improvement grants program
- In addition, 26 projects are authorized for planning beginning in FY 2018 with due dates not before the 2019 Session

Questions