

**THE DEBT CAPACITY ADVISORY COMMITTEE  
COMMONWEALTH OF VIRGINIA  
November 30, 2010**

11:30 A.M.  
TREASURY BOARD CONFERENCE ROOM  
James Monroe Building  
101 North 14<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Richmond, Virginia 23219

Members Present: Richard D. Brown, Chairman  
Elizabeth B. Daley  
Manju S. Ganeriwala  
Walter J. Kucharski  
Daniel S. Timberlake  
Ronald L. Tillett  
Glen S. Tittermary  
Robert P. Vaughn  
David Von Moll

Members Absent: William K. Butler

Others Present: Evelyn R. Whitley, Department of the Treasury  
Tracy L. Clemons, Sr., Department of the Treasury  
Sherwanda Cawthorn, Department of the Treasury  
Bill Echelberger, Senate Finance Committee  
Tim Hodge, Virginia Tech  
Tony Maggio, House Appropriations Committee  
Jason Powell, Senate Finance Committee Staff  
Emily O'Brien, McGuire Woods Consulting  
Brittany McClain, McGuire Woods Consulting  
Janet A. Aylor, Department of the Treasury

**Call To Order and Opening Remarks**

Chairman Brown called the meeting to order at 11.42 a.m. He thanked everyone for meeting on such short notice. The rating agencies have been contacted and the follow issues were reviewed 1) revenues, 2) technical adjustments 3) how the model is interpreted.

**Public Comment Period and Approval of Minutes**

Before discussion, the Chairman asked for public comments. Hearing none, the Chairman proceeded with the meeting.

## **Review of Changes from September Workgroup Report**

Ms. Whitley reviewed the blacklined changes from the September 28, 2010 meeting. Mr. Brown asked if there were any disagreements to what Ms. Whitley was reviewing. Ms. Whitley continued saying that the action on OPEB was put on hold. She stated that there were some open items from the 28<sup>th</sup>, there were additional scenarios the committee wanted to know how rating agencies would view changes.

Chairman Brown then spoke about the meetings with the agencies on November 15 and said that the bond rating firms were fine with adjusting the model with technical adjustments. Chairman Brown continued that he received more questions on the revenues being added to the model than changing the interest rate and how we are interpreting the model. Pension funds are a big issue for rating agencies however they have not determined how to move forward on this as well as the whole question of the federal budget and defense. Ms. Ganeriwala said that it was emphasized to rating agencies that the committee would stick with the current model but smooth the fluctuations so decision makers can better plan. She continued saying that rating agencies questions were geared to looking at the bigger picture. The sense was that they had no questions or concerns regarding the model. Mr. Tillett asked if agencies raised any credit concerns or negative comments relating to the budget. Chairman Brown said the ratings agencies raised no issues. Chairman Brown said that the agencies felt that the Virginia and southeast are bouncing back. They thought reviewing the model was a good idea. Since no policy issues were being changed the agencies did not view it as a fundamental change with the model. Mr. Tillett then asked if they had a concern with going over 5%. Mr. Brown said agencies are aware of revenues of VA and he is in communication about the revenues and they feel Virginia is in better shape than other states.

Ms. Whitley reviewed where we were in 2009. There was further discussion among the committee members regarding the additional scenarios that were requested during the September 28<sup>th</sup> meeting.

Chairman Brown asked if there were other questions. Ms. Daley expressed concern about going about 5% in 6 years. She thought it would be a couple years over 5% not six years. Ms. Daley asked about running additional scenarios to address her concerns about exceeding the 5%. Ms. Whitley stated there are many iterations that could be done to the model.

Chairman Brown commented that the model is an affordability model. The Governor and General Assembly can issue debt for the commonwealth. The Advisory Committee can only give advice. There was discussion about what the committee is saying to the policy makers of the Commonwealth and how will it be expressed. Discussion continued with reviewing the code and the overall function of what the committees does and how it relates to what debt is actually authorized.

The following motion was brought before the committee:

*I move the Debt Capacity Advisory Committee revise the debt capacity model beginning with the 2010 report as follows:*

- 1) *Blended Revenues will be expanded to include (a) the .25% sales tax item and (b) certain recurring Appropriation Act Transfers included in the official forecast,*
- 2) *Debt service in the model will be net of recurring non-general fund debt service appropriations for that debt (e.g., Virginia College Building Authority, Build America Bonds), and*
- 3) *The interest rate used to estimate debt service on future issues will be the average of the last 12 quarters of the Bond Buyer 11 Index for general obligation bonds, with an additional 25 basis points added for appropriation-supported obligations.*

*I further move that the debt capacity recommendation of the Committee be expressed in terms of average annual capacity over the ten year horizon of the model.*

The motion was made by Mr. Vaughn and approved by Mr. Von Moll.

Seven members of committee voted in favor of the motion and two members opposed.

Question was raised by Mr. Tillett whether any other action on other items  
Chairman Brown directed the staff to include in the report all of the changes to the model.

Since the motion previously voted on was an adoption of the amendment to the Motion the Chairman ask to approved a motion on the revised motion.

Seven members of committee voted in favor of the motion and two members opposed.

### **Other Business**

The next meeting will be held on Friday, December 17, 2010 at 2:00 pm. With no further business, the meeting adjourned at 12:50 p.m.