THE DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
September 28, 2010

3:00 P.M.
TREASURY BOARD CONFERENCE ROOM
James Monroe Building
101 North 14th Street, 3rd Floor
Richmond, Virginia 23219

Members Present:	William K. Butler Elizabeth B. Daley Manju S. Ganeriwala Walter J. Kucharski Ronald L. Tillett Daniel S. Timberlake Glen S. Tittermary Robert P. Vaughn David A. Von Moll
Members By Phone:	Richard D. Brown, Chairman
Others Present:	Evelyn R. Whitley, Department of the Treasury Tracy L. Clemons, Sr., Department of the Treasury Sherwanda Cawthorn, Department of the Treasury Tony Maggio, House Appropriations Committee Reta Busher, Virginia Department of Transportation John Lawson, Virginia Department of Transportation Emily O'Brien, McGuire Woods Consulting Neil Miller, Deputy Security of Finance Janet A. Aylor, Department of the Treasury

Call To Order and Opening Remarks

Chairman Brown called the meeting to order at 3:08 p.m. Chairman Brown was not in attendance due to illness, but proceeded with the meeting by phone. The chairman said he was not going to ask the committee to vote at this meeting. He does not want the committee to go on record with a formal vote before meeting with the bond rating agencies. Secretary Brown said that once the committee had a consensus then there would be communication with the rating agencies and then it would come back to the committee to finalize any issues.

Public Comment Period and Approval of Minutes

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

Presentation of Revised Workgroup Report - Exhibit 1

The Chairman asked Ms. Whitley to talk about the revisions to the report. Ms. Whitley stated that the revised report reflects the changes discussed at the September 20 meeting, including inclusion of the quarter percent sales tax and recurring appropriation act transfers in the blended revenues. The inclusion of the literary fund was mentioned but Ms. Whitley asked to come back to that item. The next item was related to adjusting of the interest rate assumptions. In the September 20th meeting, the committee gave Ms. Whitley the option to determine the appropriate rate to use. She recommended continuing to use the Bond Buyer 11 Index, but use 12 quarters of data instead of 8 quarters of data. Also the spread would be reduced from 50 to 25 basis points for appropriation-backed debt. With regard to pension and OPEB funds, Ms. Whitley indicated that this is still an evolving area; the group did not want to get too far ahead of the rating agencies and we need to wait to get further guidance. Chairman Brown also said he had received a call from a rating agency asking about how the state handles its OPEB funds. He recommended that the Committee to wait to see how the rating agencies will develop guidance in this area.

Going back to the literary fund, Ms. Whitley said that Mr. Tillett brought this item up prior to the September 20, 2010 meeting and wanted him to give his thoughts to the committee. Mr. Tillett noted that the Literary Fund frees up the general fund to be used for other purposes, and asked why we wouldn't include in the model. After some discussion, it was decided to leave the Literary Fund out of the model.

Ms. Daley asked how the MSA and Tobacco Taxes were treated and if the healthcare fund included in the model. Mr. Clemons confirmed that the healthcare fund is included. Mr. Kucharski suggested that the committee be consistent with what is being done with the lottery fund. Mr. Brown stated that the lottery had been taken out of the model. Mr. Timberlake said that one of the reasons was that the 97 resolution directed the literary fund pledge back to the Virginia Public School Authority's debt. Mr. Tillett then asked to have staff look at this in conjunction with the pension fund.

Ms. Whitley continued with the recommendations that included picking up of the Build America Bonds debt service net of the subsidy and integrate the debt capacity with the 6 year capital planning process. Ms. Whitley continued that the 3 recommendations are to 1)Express the debt capacity as an average solution 2) Use a 2 to 3 year recommendation to facilitate the 6 year capital plan and 3) maintain the 2 year excess capacity.

Mr. Tillett stated that he liked the theory of using the average annual number. However, he felt the two year reserve was an unnecessary constraint. Mr. Kucharski felt that a 3 year average gives the General Assembly a realistic idea of how much is available a six year program.

Mr. Brown said that we have looked at the model as to what can be issued over the next couple of years. Mr. Kucharski said he was not suggesting to change from what can be issued to authorization but to recommend what can be reasonably issued over a 3 year period. He likes the 2 year reserve.

Discussion among the Committee ensued regarding the use of the average annual capacity number and keeping the cap at 5%. Some discussion included raising the cap from 5%. The concern is to provide the General Assembly some flexibility.

Mr. Clemons went over new scenarios based on the adjustments that were agreed to by the committee. Mr. Clemons also reviewed scenario options that were discussed by the committee where consensus was not reached. Mr. Von Moll questioned whether the reserve is for unexpected capital needs. [Staff clarified that reserve was used in a different context in this instance].

The committee discussed issues they had with the structure of the available debt capacity and with including transportation. Chairman Brown suggested that issues with the transportation be put on hold until he could raise the issue with the bond rating firms.

Mr. Clemons reviewed additional scenarios for illustration at cap of 5.25%, 5.50%, and 6.00%. Mr. Brown asked if there was an agreement for the 3rd scenario. Ms. Daley commented that her members might not have problem with going up to 5.1% or 5.2% but if it gets close to 6% they may have a problem.

Chairman Brown suggested to use scenario number 3 and use it as a base line. In addition Chairman Brown asked staff to run the following alternatives to circulate to members and a get a consensus.

1. Include technical changes with 5% constraint, 2 year reserve.
2. Let the model run free with the 5% over the ten year horizon with no individual year constraint in any year 2 year reserve.
3. Run same as number two with no reserve.
4. Look at 5.5% or 6.0% and constraint it within the first few years.
5. Look at average revenues scenario.

These scenarios will be circulated to all members of the committee via email.

Mr. Clemons summarized a few more scenarios for the grouping response to questions raised during the September 20, 2010 meeting. Mr. Brown emphasized again that there would be no vote until he gets rating agency reactions. Mr. Tillett asked that Chairman Brown ask the rating agencies about reserve capacity issue.

Mr. Butler and Mr. Tillett asked about a target date for wrapping this up. Chairman Brown said he is looking at the end of October.

Other Business

With no further business, the meeting adjourned at 5:14 p.m.