

**DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
October 5, 2015**

2:00 P.M.

TREASURY BOARD CONFERENCE ROOM
James Monroe Building
101 North 14th Street, 3rd Floor
Richmond, Virginia 23219

Members Present: Richard D. Brown, Chairman
Elizabeth B. Daley
Manju S. Ganeriwala
Harold E. Greer
Martha S. Mavredes
Ronald L. Tillett
Daniel S. Timberlake
Robert P. Vaughn
David A. Von Moll

Members Absent: None

Others Present:	Janet Aylor	Department of the Treasury
	Bradley Jones	Department of the Treasury
	Sherwanda Cawthorn	Department of the Treasury
	Gina Burgin	Office of Secretary of Finance
	Neil Miller	Office of Secretary of Finance
	Lauren Abraham	Vectre Corporation
	Phillip A. Leone	Virginia Tech
	Duane Miller	Auditor of Public Accounts
	Jason Powell	Office of Senate Finance
	Laura Farmer	Department of Transportation
	John Lawson	Department of Transportation
	Eugene Chigna	Department of the Treasury
	Debora Greene	Department of the Treasury
	James Mahone	Department of the Treasury
	Melissa Palmer	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	Michael Walsh	Department of the Treasury

Call to Order and Opening Remarks

Chairman Brown welcomed Debt Capacity Advisory Committee (“DCAC” or “Committee”) Members and called the meeting to order at 2:07 p.m. He stated that the primary purposes of the meeting were to inform the Committee of the 2015 General Fund (“GF”) results, the working forecast for GF revenues and the related impacts to debt capacity. He said that under the Other Business item he asked the Director of Debt Management, Janet Aylor, to present an overview of Public Private Partnerships (“P3”), as certain types of P3 projects could impact debt capacity in the future.

Approval of Minutes

Chairman Brown asked the Committee for a motion to approve the minutes of the December 18, 2014 meeting. Ms. Ganeriwala made a motion to approve the minutes. The motion was seconded by Mr. Tillett and was approved unanimously.

Public Comment

During the public comment period, Chairman Brown asked that the audience introduce themselves and make public comments if they wanted to do so.

There were no public comments.

Discussion of the Commonwealth’s August 2015 Revenue Forecast

Chairman Brown asked the Department of Taxation’s Chief Economist, John Layman, to give a presentation regarding the Commonwealth’s August 2015 Revenue Forecast. (Exhibit 1)

Mr. Layman directed the Committee to the presentation in the meeting package. He commented that the large GF revenue surplus of \$549.6 million was mainly comprised of net individual non-withholding surplus revenue of \$316.4 million. He further commented that individual withholding revenues were stronger than forecasted and that sales tax and recordation fees also helped generate the surplus.

Mr. Layman then discussed the development of the Fall 2015 Working Forecast. He emphasized that the Fall Forecast is only meant to be used as a guidepost indicating the direction of where revenues are headed. It is not based on any national or Virginia updated economic forecasts. He explained that the Fall Working Forecast is a mathematical exercise where the forecast years are updated to match the growth rates for the major sources as contained in Chapter 665 for fiscal year 2016 and the long-term growth rates released in December 2014 for fiscal years 2017 and 2018. He then explained that the exception to the methodology is the non-withholding component. The non-withholding revenues were explained to have been updated to maintain a collar related to total revenues. Based on the 10-year average, non-withholding is limited to 16.14% of total revenues. Mr. Layman emphasized that with current growth rates, 5.9% revenue

growth over the coming biennium is forecast, which is about \$3 billion more than what was contained in the previous forecast.

Chairman Brown asked Mr. Layman to discuss the budgeted revenues for Transportation. Mr. Layman said with regard to the Commonwealth Transportation Board (“CTB”), he did not prepare a mathematical update and anticipates no real significant change in revenues.

Chairman Brown then commented that in terms of an update to the forecast, the Joint Advisory Board of Economists meet on October 14, 2015 which is followed by a November meeting of the Governor’s Advisory Council on Revenue Estimates. Following these meetings, a full forecast update will be prepared.

Staff Review of Model Results Incorporating August 2015 Revenue Forecast

Chairman Brown asked Treasury staff member, Brad Jones, to review the interim DCAC model results incorporating the August 2015 Revenue Forecast. (Exhibit 2)

Mr. Jones directed the Committee to the October 2015 Interim Base Model Solution. Before reviewing the calculated capacity, he provided a summary of items updated in the interim model. He stated debt service had been updated for actual issuances through June 30, 2015. He also mentioned that the model was updated with actual 2015 General Fund revenues and it incorporates revised debt issuance assumptions that include the additional \$118 million of net tax-supported debt approved during the 2015 General Assembly Session. Additionally he stated that the interim model was updated to include the GF Working Forecast, as presented by Mr. Layman. Mr. Jones explained that with the updates, the interim model calculates a capacity of \$543 million. Mr. Jones then noted that the amount of capacity in the interim model compares favorably to the December 2014 model. However, he explained that the strong capacity in both models is a result of the 10-year average approach and that much of the capacity comes from the second-half of the model horizon.

Mr. Jones then reviewed the potential changes between the October 2015 model and the December 2015 model. He stated that the December 2015 model will be updated with the revised GF revenue forecast, which will have revisions based on new economic data from I H S Global Insight. He also explained the December update will include new forecasts for the Transportation Trust Fund and the Virginia Healthcare Fund. He further explained the December model will be updated with recent changes to interest rates and capital lease and installment purchase data to come from the 2015 Comprehensive Annual Financial Report. He explained there may also be updates to the debt issuance assumptions. The last twelve quarter average interest rates will be updated and there may be possible changes to issuance assumptions as staff works with the Department of Planning and Budget to finalize new drawn schedule estimates.

Following the review of updates that will occur between the Interim October 2015 model and the Official December 2015 Model, Mr. Jones reviewed the Interim Base Model Average Solution. He explained this solution depicts the result of the average capacity of \$543 million being issued in each of the 10 years modeled. He explained that when the average capacity is assumed to be

issued in each fiscal year, the 5% debt service as a percentage of blended revenues target is exceeded in six of the 10 model years. He commented that this is the same number of years that were exceeded with last December's model and that fiscal year 2017 remains a capacity bottleneck. Mr. Jones commented that in fiscal years 2017 and 2018, a high of 5.33% is modeled, but this compares favorably to the high of 5.66% in fiscal year 2017 modeled last year.

Mr. Jones then stated that he included the interim debt issuance assumptions in the meeting package for the Committee's reference. He asked if there were any questions regarding the issuance assumptions or the presented interim model solutions. Mr. Tillett asked for confirmation regarding the items updated between the December 2014 Model and the October 2015 Model. Mr. Jones confirmed the updates made to the model. Chairman Brown commented that the updates had an approximate impact of \$80 million a year on capacity. Mr. Jones then added that in 2013 the average capacity was \$560 million. He explained that the 2014 shortfall decreased the average capacity to \$459 million and now adding the 2015 surplus the average capacity has increased to \$543 million.

Chairman Brown commented that one item not accounted for in the analysis is language from the Appropriations Act authorizing a capital lease for the Virginia Port Authority. He added negotiations for the lease are not finalized, but this item could make its way into debt capacity by the December 2015 meeting.

Other Business

Chairman Brown asked Ms. Aylor to present the Overview of Public Private Partnerships and Impacts to Debt Capacity. (Exhibit 3)

In her presentation, Ms. Aylor said P3s are an alternative method for delivery of complex capital projects. She explained risk transfer in defining what is a P3 and she also explained why P3s are pursued from both the public and private sector standpoints. Ms. Aylor then explained what services the private sector provides and then stated there are two typical P3 structures – Demand Based and Availability Payments. The Demand Based P3 Model was explained and then Ms. Aylor cited examples of recent demand based P3s in the Commonwealth: I-495 Capital Beltway HOT Lanes and the I-95 HOV/HOT Lanes.

Ms. Aylor then reviewed the Availability Payment P3 Model. With regard to availability payments, Ms. Daley asked whether P3 financing is typically used for transportation or whether staff could give other examples of the application of this model. Ms. Aylor responded that Florida has a toll road availability payment P3 in place. Mr. Jones also said that correctional facility projects have used this type of P3. Ms. Ganeriwala directed a question to the Virginia Department of Transportation (“VDOT”) staff in attendance and asked if VDOT was looking at using this structure for any upcoming projects. Mr. Lawson responded that at this point VDOT is not considering any availability payment P3s but that VDOT is considering other variations of P3s. Ms. Aylor then continued her presentation and covered thoughts on whether P3s are tax-supported debt, the rating agency views of availability payments and the potential for availability payments to impact debt capacity. The Committee discussed the uniqueness of these projects and

how project revenues might be sufficient to cover the payments. Chairman Brown commented that should an availability payment P3 arise in Virginia; that the Committee will need to determine how to address within the DCAC model.

Chairman Brown then directed the Committee back to any other business. Mr. Tillett requested an opportunity to comment on possible debt issuance strategies going forward. He first commented that with the current low interest rate environment, the Commonwealth should accelerate issuing authorized debt in order to benefit from the rates. Mr. Tillett then stated that there appears to be movement for a General Obligation bond (“GO”) bill in the coming General Assembly session. He commented that GO bond bills usually contain a large amount of projects and a bill would likely contain an amount above the biennial capacity. He also commented that there could even be debt proposed outside of a GO bond bill. Mr. Tillett asked Chairman Brown whether the potential debt should be considered by the Committee. Chairman Brown commented that project requests are begin analyzed and potential funding mechanisms are being considered. He further stated that the Governor’s budget will be released in December and the Committee can discuss potential impacts once more details are available and the December revenue forecast is complete.

Chairman Brown asked if there was any Other Business. Hearing no Other Business, Chairman Brown requested that the Committee decide on its next meeting date. The Committee decided its next meeting will be held on Friday, December 18, 2015 at 1:00 p.m.

With no further business, the meeting adjourned at 3:05 p.m.

Exhibits may be obtained by contacting the Department of Treasury at (804) 225-2142.