

**DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
December 21, 2021**

10:00 A.M.

Members Present: K. Joseph Flores, Chairman
 Manju S. Ganeriwala
 Harold E. Greer
 Staci A. Henshaw
 April R. Kees
 Anne Oman
 Hossein Sadid
 Ronald L. Tillett
 Daniel S. Timberlake
 David A. Von Moll

Others Present: Glenn A. Youngkin, Governor-Elect
 Ali Ahmad, Aid to Governor-Elect Youngkin
 Jonathan Ewing, Aid to Governor-Elect Youngkin
 David Swynford, Department of the Treasury
 Bradley L. Jones, Department of the Treasury
 Sherwanda Cawthorn, Department of the Treasury
 Donald Ferguson, Attorney General's Office
 Jason Powell, Senate Finance and Appropriations Committee
 Tyler Williams, Senate Finance and Appropriations Committee
 Andrea Peeks, House Appropriations Committee

Others Present by
Phone: Richard Rhodemyre, Department of the Treasury
 Jay Conrad, Department of the Treasury
 Ty Wellford, Davenport and Company

Call to Order

Chairman Flores called the meeting to order at 10:05 a.m. and welcomed the attendees.

Opening Remarks and Public Comment Period

Chairman Flores welcomed Governor-Elect Glenn A. Youngkin and his staff to the meeting.

Chairman Flores then asked if anyone present desired to make public comments. There were no public comments.

Approval of Minutes from December 17, 2020 Meeting

Chairman Flores asked the Committee if there were any edits to the draft minutes of the December 17, 2020 meeting. Hearing no changes, the Chairman asked if there was a motion to approve the minutes as presented. Mr. Tillett made a motion to approve the minutes. Mr. Sadid seconded the motion with unanimous vote by the Board.

Review of the 2021 DCAC Report

Chairman Flores asked Mr. Jones to present the 2021 Draft DCAC Report. (Exhibit 1)

Mr. Jones gave a special welcome to Governor-Elect Glenn Youngkin. Mr. Jones then welcomed the newest member of the Committee, Staci Henshaw. Mr. Jones stated that the cover letter for the report would be reviewed at the end of the presentation.

Mr. Jones began on page 3 of the report by reviewing the model inputs, including a review of the 5% debt capacity limit, noting that the limit is not a legal limit, but a policy limit that is to serve as a guideline to the Governor and State policymakers. Mr. Jones then reviewed the definition of Blended Revenues used in the model, noting that they are comprised of general fund revenues, certain recurring non-general fund transfers including ABC profits, State revenues of the Transportation Trust Fund (“TTF”), and Virginia Health Care Fund revenues. Mr. Jones then reviewed what is included in tax-supported debt, noting that the model includes actual debt service as of June 30, 2021 on all existing tax-supported debt, as well as estimated debt service on future issuances of tax-supported that have already been approved by the General Assembly but have yet to be issued. Mr. Jones then expanded on the various types of State debt that are considered tax-supported, noting that it includes general obligation (“G.O.”) bonds (with the exception of 9(c) G.O. as these are supported by project revenues), debt supported by the TTF, obligations of the VCBA and VPBA that are appropriation supported, and capital leases and installment purchases. Mr. Sadid then asked Mr. Jones to expand on authorized but unissued debt and how the timing of this debt is projected in the model and how far back to these authorizations go. Discussion ensued.

Mr. Jones then reviewed the potential influencing factors that could impact the Commonwealth’s debt capacity in the coming year, including the impacts of Covid-19, inflation risks, interest rate risk, increased project cost and supply chain risks, the impact of the Federal stimulus dollars received, and the impact of tax policy changes proposed in the 2022 budget. Discussion ensued.

Mr. Jones then reviewed the debt capacity model recommendation, noting that estimated debt capacity for fiscal years 2022 and 2023 was \$1.10 billion, up from \$544 million in the prior year. Mr. Jones noted that the biggest factors influencing the increase were the sharp increase in revenues in fiscal year 2021, a continued low interest rate environment, and a relatively low amount of new authorization of tax-supported debt in fiscal year 2021.

Mr. Jones then reviewed the other recommendations made in the report, including a continued recommendation to consider 9(b) G.O. bonds to secure the lowest possible interest rates, the recommendation to continue using other traditional financing methods such as the VPBA and VCBA when 9(b) G.O. bonds are not an option, the recommendation to continue to be conservative with the planning of any future tax-supported debt issuances, and the recommendation to continue to evaluate existing authorized projects that have not moved forward to determine whether these authorizations can be rescinded or amended. Ms. Ganeriwala mentioned that the rating agencies have historically noted that Virginia has a much lower amount of general obligation debt relative to other states. Mr. Jones then highlighted that this year's report included an expansion on the discussion of TTF debt's impact on overall debt capacity. Discussion ensued.

Mr. Jones then reviewed the trends in Virginia's tax-supported debt over the last 10 fiscal years, noting that Virginia's tax-supported debt has increased by \$10.2 billion, or 72%, over this time period, also noting that this is primarily due to increasing 9(d) appropriation supported debt and increasing pension liabilities. Mr. Jones then reviewed the various types of tax-supported debt and discussed how they have grown over the last 10 fiscal years relative to one another. Discussion then ensued regarding growing pension obligations. Mr. Von Moll noted that outstanding leases will not spike with the upcoming change in GASB standards and requested that the report be amended to reflect as much. Mr. Jones then noted that with \$5.9 billion in authorized but unissued tax-supported debt, that it is likely that Virginia would see significant issuances of tax-supported debt in the coming fiscal years as these authorized projects move forward. Mr. Jones then noted that as has been the case historically, the majority of the Commonwealth's tax-supported debt is issued to support institutions of higher education and transportation.

Mr. Jones then reviewed the State's non-tax supported debt, noting that this section of the report was also expanded on to give a more thorough review of these obligations. Mr. Jones noted that non-tax supported debt includes the 9(d) obligations of the higher education institutions for which general revenues of the schools are pledged, the obligations of Virginia's various authorities that issue debt that is not supported by general tax revenues of the Commonwealth, GARVEE's for which the debt is secured by Federal grants, obligations of various state Foundations, and portions of capital leases, installment purchases, and pension obligations for which the State is not responsible. Discussion ensued.

Mr. Jones then reviewed the State Credit Rating overview section of the report. It was noted that Virginia continues to be rated "AAA" by all three major rating agencies, with its appropriation supported debt falling one notch below at "AA+". Mr. Jones then noted that Virginia ended fiscal year 2021 with reserves of \$1.5 billion, up from \$1.1 billion the prior year, with projected reserves of \$3.9 billion by fiscal year-end 2023. Mr. Jones emphasized that for the Commonwealth to maintain its strong credit ratings it was important to continue its practices of balanced budgeting and commitment to building reserves. Mr. Jones then reviewed how Virginia compares to other triple "AAA" states. Discussion ensued regarding what the rating agencies consider as tax-supported debt in their analyses and why Virginia ranks where it does relative to other triple "AAA" states.

Mr. Jones then directed the Committee to page A-7 and A-8 to review the model results for the base model and average model. Mr. Jones noted that this is the first time in memory that the average model solution did not indicate Virginia exceeding its 5% capacity limit in any of the projected fiscal years as a result of the sharp increase in revenues. Mr. Jones asked if there were any questions on the model results and discussion ensued.

Mr. Jones then reviewed the sensitivity analyses beginning on page A-10. Mr. Jones highlighted the potential risk for interest rate changes on the model, noting that rates are at historical lows and that if rates were to rise, future issuances could take place at rates that are much higher than what is modeled. Discussion ensued.

Mr. Jones then reviewed the State's contingent liability and moral obligation debt beginning on page A-13. Discussion ensued.

Mr. Jones then reviewed the cover letter to the report and asked if the Committee had any recommended changes to the cover letter. Mr. Tillett requested that a cautionary statement be added to the cover letter. Discussion ensued. Chairman Flores asked for a motion to approve the cover letter with the change as recommended by Mr. Tillett and the approval of the report with the suggested change as recommended by Mr. Von Moll. Mr. Von Moll made the motion and Mr. Timberlake seconded, with unanimous approval by the Committee.

Other Business

With no further business, the meeting adjourned at 11:49 a.m.

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