

**DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
December 18, 2019**

1:00 P.M.

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

Members Present:

Aubrey L. Layne, Jr., Chairman
Manju S. Ganeriwala
Harold E. Greer
April R. Kees
Martha S. Mavredes
Hossein Sadid
Ronald L. Tillett
Daniel S. Timberlake
Robert P. Vaughn
David A. Von Moll

Others Present:

David Swynford, Department of the Treasury
Janet A. Aylor, Department of the Treasury
Bradley L. Jones, Department of the Treasury
Richard Rhodemyre IV, Department of the Treasury
Sherwanda Cawthorn, Department of the Treasury
David Back, Department of the Treasury
Leslie English, Department of the Treasury
James Mahone, Department of the Treasury
Joe Flores, Deputy Secretary of Finance
June Jennings, Deputy Secretary of Finance
Tony Maggio, House Appropriations Committee Staff
Anne Oman, House Appropriations Committee
Sarah Herzog, Senate Finance Committee
Jason Powell, Co-Director, Senate Finance Committee
Jean Huskey, State Council of Higher Education for Virginia
Felix Sam, State Council of Higher Education for Virginia

Call to Order and Opening Remarks

Chairman Layne called the meeting to order at 1:04 p.m. and welcomed the attendees. The Chairman introduced the newest member of the Committee, Mr. Hossein Sadid. Mr. Sadid gave remarks.

Public Comment Period

During the public comment period, Chairman Layne asked if anyone present desired to make public comments.

There were no public comments.

Approval of Minutes

Chairman Layne asked the Committee for a motion to approve the minutes of the December 19, 2018 meeting. Mr. Vaughn made a motion to approve the minutes. Ms. Kees seconded the motion and it carried unanimously by the members.

Review of the 2019 DCAC Report

Chairman Layne asked Mr. Jones to present the 2019 Draft DCAC Report. (Exhibit 1) Mr. Jones also welcomed Mr. Sadid to the Committee and introduced a new addition to the Treasury Staff, Richard Rhodemyre, IV.

Mr. Jones began by reviewing the items that are included and excluded in the model. The general fund revenues were presented on December 17, 2019 in the Official Revenue Forecast. Mr. Jones added that the Blended Revenues used in the Debt Capacity Model are comprised of general fund revenues, certain recurring non-general transfers to include ABC profits, state revenues in the Transportation Trust Fund (TTF) and the Virginia Health Care Fund revenues. The Department of Taxation again provided the adjusted general fund revenues that remove Federal Tax Cuts and Jobs Act (TCJA) from the 2019 DCAC Model.

There have been recent federal and state law changes. The uncertainty in their implementation is thought to have caused a boost in the fiscal year 2019 Virginia non withholding revenues. Ms. Kees had a question whether certain Healthcare, cigarette tax or gaming revenues were taken into account in the model. She wanted clarification whether or not amounts are proposed amounts not yet accepted by the General Assembly (GA). Mr. Jones response was that Healthcare and Cigarette Tax funds are included but not the gaming revenue or the TTF revenue. Ms. Kees and the Chairman concurred that it would be prudent to include this information in the Cover Letter of the report.

Mr. Jones then reviewed the tax-supported debt obligations in the model including general obligation bonds issued pursuant to Article X Section 9 (c) of the Constitution of Virginia, for which debt service is paid from revenues. He also commented on the debt secured by the TTF,

obligations issued by the Virginia Public Building Authority (VPBA) and the Virginia College Building Authority (VCBA) that are repaid from general fund appropriations. Mr. Jones also said that 80% of capital leases and installment purchases are included for governmental debt. A lengthy discussion ensued with Chairman Layne stating that the current capital lease debt was a subject he wanted to bring up at the meeting. Chairmen Layne inquired of Mr. Von Moll as to whether the Commonwealth had reached a way of complying with the new standards being placed on capital leases. According to new GAAP rules all financing, operating and capital leases will be classified as long-term and short-term leases. A discussion ensued in regards to the classification of the leases and their materiality to debt capacity. At the conclusion of the discussion Chairman Layne asked Mr. Von Moll to prepare a report of all off balance sheet debt and distribute it to the Committee. Mr. Von Moll responded that there is already a report available and it would be sent out. Chairman Layne and the Committee concluded the subject of leases would be item reviewed and schedule a meeting after the General Assembly Session to have a discussion.

Mr. Jones directed the Committee to the section titled “Potential Influencing Factors for Virginia’s Fiscal Position”. Fiscal year 2019 ended with a strong performance and it is expected to continue in 2020. Mr. Jones said members should keep in mind the Federal Tax Cuts and Jobs Act (“TCJA”) and the volatility of the interest rates. His comments included that the Commonwealth continues to experience a low unemployment rate and the revenue from internet-sales will slightly boost overall sale. He added the destruction of natural disasters continues and impacts the increasing populating waterfront property. Mr. Jones said that Rating agencies have been noting the coastal risk the state’s preparedness to hand disasters. It will be prudent for the Commonwealth to further strengthen its strong reserve fund balances. Mr. Jones summed up his comments on influencing factors by emphasizing the need for conservative financial management practices.

Mr. Jones then discussed the “Trends in Tax Supported Debt” section of the report. Mr. Jones said that outstanding tax-supported debt has continued to increase \$11 billion from 2010 to 2019. He explained this resulted from the growing 9 (d) debt outstanding and overall increases in pension and other post-employment benefits (OPEB) liabilities. Mr. Jones reviewed the categories of outstanding debt, tax-supported debt authorizations, debt issued and uses of debt on pages 10 -14. He noted that between fiscal year 2018 and 2019, other long-term obligations declined substantially by 7% (\$680 million).

A review of the State Credit Ratings on page 15 of the report was presented to the Committee. It was emphasized that for the Commonwealth to maintain its structural budgeting practice and its commitment to building reserve fund balances. Mr. Jones then reviewed Virginia’s ranking among other states in net tax-supported debt per capita and as a percent of personal income.

The Committee was directed to the Appendix of the report first reviewing the breakout of planned and unissued debt issuance assumptions on page A-4 used in the Model. A discussion ensued regarding when debt is actually issued. Mr. Jones then review the Base Model Solution on page A-5. He said the debt capacity estimate of \$765 million per year. Using the Average Model

Solution, of \$765 million in each year, the 5% threshold was estimated to be crossed for three of the ten years (2023-2025).

Mr. Jones then reviewed the Sensitivity Analysis section. He noted that of particular importance, if the Model interest rate was to be increased by 100 basis points, debt capacity is estimated to decline to \$676.7 million.

Mr. Jones presented Moral Obligation and Contingent Liability Debt section. He noted Virginia Resources Authority (“VRA”) had \$926.5 million of moral obligation debt outstanding as of June 30, 2019 and Virginia Public School Authority (“VPSA”) had nearly \$3 billion of sum sufficient appropriation debt outstanding. He noted that if all VRA debt was assumed into the Model, resulting capacity would decline to \$687.5 million a year. Similarly, he noted that if all VPSA debt was assumed into the Model, resulting capacity would decline to \$525.4 million annually.

Mr. Jones asked if there were any questions or further comments on the draft report.

Hearing no further questions, Secretary Layne asked for a motion that the Debt Capacity Recommendation Letter and Report be approved. Mr. Tillett made a motion to approve the report, Ms. Kees seconded the motion and it carried unanimously by the members.

Other Business

Secretary Layne asked if there was any other business to be discussed. No members voiced any other business. Secretary Layne, on behalf of the Committee, commended Mr. Robert Vaughn for his service on the Board. The Committee will probably be asked to reconvene during the year to address some items pertinent to completing the 2020 DCAC report.

With no further business, the meeting adjourned at 2:17 p.m.

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