

**DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
December 17, 2020**

3:00 P.M.

ELECTRONIC MEETING VIA GOOGLE MEET

Members Present:

Aubrey L. Layne, Jr., Chairman
Manju S. Ganeriwala
Harold E. Greer
April R. Kees
Martha S. Mavredes
Anne Oman
Hossein Sadid
Ronald L. Tillett
Daniel S. Timberlake
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
Joe Flores, Deputy Secretary of Finance
June Jennings, Deputy Secretary of Finance
Sarah Herzog, Senate Finance and Appropriations Committee Staff
Jason Powell, Senate Finance and Appropriations Committee Staff
Tony Maggio, House Appropriations Committee Staff
Kimberly Sarte, Joint Legislative Audit & Review Commission Staff

Call to Order and Record of Attendance

Chairman Layne called the meeting to order at 3:00 p.m. and welcomed the attendees. He began the meeting with the following statement:

Due to the Governor's Declared State of Emergency due to COVID-19, it is impracticable and unsafe for the Debt Capacity Advisory Committee (DCAC or the Committee) to assemble in a single location, so the meeting will be held electronically pursuant to the 2020-2022 Appropriation Act. The purpose of the meeting is to discuss or transact the business statutorily required or necessary to continue operations of the Debt Capacity Advisory Committee and the discharge of their lawful purposes, duties, and responsibilities. The public is welcome to use the dial-in number and PIN provided in the meeting notice to attend

the meeting electronically. The Debt Capacity Advisory Committee will make available a recording or transcript of the meeting on its website in accordance with the timeframes established in Sections 2.2-3707 and 2.2-3701.1 of the Code of Virginia.

The Chairman asked Mr. Jones to conduct a roll call of attendance of the DCAC members. As noted in the attendance record on page one of these minutes, all members were present.

Opening Remarks and Public Comment Period

The Chairman acknowledged the upcoming retirement of Committee member Martha Mavredes, Auditor of Public Accounts. He thanked her for her distinguished service of 36 years to the APA and the Commonwealth and her eight years of guidance to the Debt Capacity Advisory Committee.

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

Approval of Minutes from December 18, 2019 Meeting

Chairman Layne asked the Committee if there were any edits to the draft minutes of the December 18, 2019 meeting. Ms. Kees and Ms. Mavredes asked that the word “millions” be added behind two numbers referring to annual debt capacity. The Chairman asked if there was a motion to approve the minutes as corrected. Mr. Sadid made a motion to approve the corrected minutes. Ms. Kees seconded the motion. The Chairman then asked Mr. Jones to conduct a roll call vote. The votes were as follows:

Aubrey L. Layne, Jr.	Yes
Manju S. Ganeriwala	Yes
Harold E. Greer	Yes
April R. Kees	Yes
Martha S. Mavredes	Yes
Anne Oman	Yes
Hossein Sadid	Yes
Ronald L. Tillett	Yes
Daniel S. Timberlake	Yes
David A. Von Moll	Yes

Approval of Minutes from August 18, 2020 Meeting

Chairman Layne then asked if there were any edits to the draft minutes of the August 18, 2020 meeting. There were no edits. Mr. Tillett made a motion to approve the minutes. Mr. Von Moll seconded the motion. Mr. Jones was asked to conduct a roll call vote. The votes were as follows:

Aubrey L. Layne, Jr.	Yes
Manju S. Ganeriwala	Yes
Harold E. Greer	Yes
April R. Kees	Yes
Martha S. Mavredes	Yes
Anne Oman	Yes
Hossein Sadid	Yes
Ronald L. Tillett	Yes
Daniel S. Timberlake	Yes
David A. Von Moll	Yes

Review of the 2020 DCAC Report

Chairman Layne asked Mr. Jones to present the 2020 Draft DCAC Report. (Exhibit 1)

Mr. Jones provided an overview of the components of the DCAC Model. He noted that Blended Revenues include General Fund (GF) revenues along with transfers into that fund, Transportation Trust Fund (TTF) revenues, and Health Care Fund revenues. He further noted that GF revenues were adjusted from the forecast to exclude temporary revenues through fiscal year 2025, which are related to the Tax Cuts and Jobs Act. Mr. Jones also explained that the transportation funding method had recently changed. He noted that the Commonwealth Transportation Fund forecast had been provided by the Department of Taxation to the Department of Transportation and that the Department of Transportation had provided the TTF forecast used in the DCAC Model. Mr. Jones then reviewed which obligations constitute tax-supported debt. He noted that 9(c) General Obligation debt is excluded from the model because there are project revenues that support the debt payments. He explained that the DCAC model also excludes GARVEEs, which are first backed by federal revenues.

Mr. Jones reviewed the Potential Influencing Factors for Virginia’s Fiscal Position. The challenges, Virginia’s strengths, and certain opportunities related to COVID-19 were all highlighted. It was noted that with the many uncertainties, caution is needed during this time and reserves and structural balance should remain at the top of mind.

Mr. Jones noted that one of the formal draft recommendations included in the report and cover letter expands upon the caution just discussed. He explained that given the recent growth in debt compared to other states and that we remain in a public health crisis and an economic crisis, that any new debt authorizations should be carefully considered as to whether they are necessary at this time. He further noted that the recommendation includes the consideration of whether any existing authorizations of projects not under construction should be rescinded.

The Committee discussed the new recommendation and comparative debt levels. Chairman Layne agreed with the need for caution, but he also noted the favorable interest rate environment in which we are currently issuing debt. Tony Maggio asked about the comparability of debt by Moody’s

from state-to-state and whether transportation debt is included in their analyses. Jason Powell also noted that with changes to transportation funding, related revenues should increase in comparison to the related debt. The Chairman noted he would have staff and possibly a sub-committee review the model components before the next annual DCAC meeting.

Mr. Jones reviewed the Trends in Tax-Supported Debt section and explained the recent and historical changes in each debt category. The Chairman noted that a recent change to the Virginia Retirement System's discount rate likely caused the increase to pension liabilities for fiscal year 2020.

Trends in debt authorizations and issuances were reviewed along with the uses of such debt. The current and projected levels of debt service, including the planned issuances of currently authorized debt, were also noted. The Committee then reviewed the State Credit Ratings section and briefly revisited the topic of comparative debt ratios.

Mr. Jones then reviewed the Appendix. He noted that the Model interest rate dropped again this year and is now only 3.00%. He then reviewed the currently authorized tax-supported debt issuance assumptions. The Committee then reviewed and discussed the capacity calculation. Mr. Jones noted the calculated capacity is now \$544 million a year, which is down from \$765 million a year in December 2019. It was discussed that a decline in interest rates helped capacity, but a combination of the revenue decline caused by the pandemic and substantial debt authorizations in the 2020 General Assembly Session caused capacity to decline. It was noted that if \$544 million a year was authorized and issued, the average scenario estimates the 5% debt to Blended Revenues threshold would be exceeded in five of the 10 model years with a maximum of 5.33%.

The Committee reviewed the Sensitivity Analysis section. The Committee briefly discussed the current favorable interest rate environment and the potential rise in rates at some point in the future. While the likelihood of a dramatic rise in interest rates in the near-term seems low, this variable has a significant impact on capacity. It was determined that a statement would remain in the cover letter regarding the potential impact of a 100 basis points rise in interest rates.

The Committee briefly discussed the debt of the Commonwealth, including the total tax-supported debt and the total of other debt not supported by taxes.

Mr. Jones then reviewed the Moral Obligation and Contingent or Limited Liability sections. He noted the levels of such debt and the remaining debt capacity under scenarios incorporating such debt. A brief discussion occurred regarding whether there is any cost or impact to the Commonwealth for providing such credit enhancements and whether the Moral Obligation should still be available to the Virginia Housing Development Authority and the Virginia Public School Authority since it is not being utilized. It was noted that there does not appear to be any cost or impact to the Commonwealth for providing the current level of credit enhancements and that there hasn't been an adverse reaction by the market or rating agencies for there being unused Moral

Obligation authority. The Committee again agreed it would be helpful for the Model components to be evaluated before the next annual DCAC meeting.

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

The Committee then reviewed the cover letter. Mr. Jones focused attention to the capacity recommendation (\$544 million a year), the statement urging caution with any new debt authorizations, and the statement on interest rate sensitivity.

Chairman Layne asked if there were any questions or further discussion regarding the cover letter or the report. Hearing no further discussion, the Chairman asked for a motion that the Debt Capacity Advisory Committee 2020 Report and cover letter be approved. Anne Oman made a motion to approve the materials. Ms. Mavredes seconded the motion. A roll call vote was taken and the motion carried unanimously. The votes were as follows:

Aubrey L. Layne, Jr.	Yes
Manju S. Ganeriwala	Yes
Harold E. Greer	Yes
April R. Kees	Yes
Martha S. Mavredes	Yes
Anne Oman	Yes
Hossein Sadid	Yes
Ronald L. Tillett	Yes
Daniel S. Timberlake	Yes
David A. Von Moll	Yes

Other Business

The Chairman asked if there was any other business to be discussed. No members voiced any other business. The Chairman stated that he, Ms. Ganeriwala and Mr. Jones will be convening after the General Assembly to review the DCAC Model components. The Committee may be asked to reconvene during the year to address some items pertinent to completing the 2021 DCAC Report.

With no further business, the meeting adjourned at 4:40 p.m.

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