COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

December 19, 2011

The Honorable Robert F. McDonnell
Governor of Virginia
Patrick Henry Building, 3rd Floor
Richmond, Virginia 23219

The Honorable Paul G. Nardo
Clerk of the House of Delegates
Virginia House of Delegates
State Capital, Room 303
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar
Clerk of the Senate
Senate of Virginia
State Capital Building, 3rd Floor
Richmond, Virginia 23219

Dear Governor McDonnell, Ms. Schaar, and Mr. Nardo:

The Debt Capacity Advisory Committee ("Committee" or "DCAC") is required pursuant to Section 2.2-2713 of the Code of Virginia to annually review the Commonwealth's tax-supported debt and submit to the Governor and General Assembly an estimate of the maximum amount of new tax-supported debt that prudently may be authorized and issued for the next two years. In addition, the Committee is required to review annually the Commonwealth's moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. I am pleased to present the report for 2011.

In 2010, the Committee approved several changes to its debt capacity model. The primary changes adopted by the Committee result in (i) the inclusion in the model of certain additional revenue and transfer items that are part of the state's official general fund forecast, (ii) an adjustment to debt service for amounts expected to be paid from non-general fund sources, and (iii) the use of the ten-year average capacity to determine the debt capacity solution. Computation of the average will continue to be based on the stringent five percent measure of debt service to blended revenues. Continuing this ten-year average approach helps smooth the effect of large revenue fluctuations and facilitates long-term capital planning.

Based on the revised assumptions adopted and implemented beginning in 2010, the Committee estimates that an additional $466.83 million in debt could be authorized in each of fiscal years 2012 and 2013. This amount will cause projections of debt service as a percent of blended revenues over the ten-year model horizon to exceed five percent in some years and be below in other years. This capacity is based on a number of issuance assumptions contained in the model. If these assumptions change, the resulting capacity will also change.

The report is intended to provide the Governor and the General Assembly with a basis to assess the impact of future debt authorization and issuance on the Commonwealth's fiscal position and enable informed decision-making on capital spending priorities. The report also provides historical perspective on the Commonwealth's authorization and issuance of tax-supported debt over the last decade.

Sincerely,

Richard D. Brown, Chairman
Debt Capacity Advisory Committee

Attachment

c: Debt Capacity Advisory Committee Members

Commonwealth of Virginia

Debt Capacity Advisory Committee

Report to the Governor and the General Assembly

December 19, 2011

Report of the Debt Capacity Advisory Committee
December 19, 2011

Debt Capacity Advisory Committee Members

The Honorable Richard D. Brown – Chairman
Secretary of Finance

William K. Butler
Citizen Member

Elizabeth B. Daley
Staff Director, Senate Finance Committee

Manju S. Ganeriwala
State Treasurer

Walter J. Kucharski
Auditor of Public Accounts

Ronald L. Tillett
Citizen Member

Daniel S. Timberlake
Director of the Department of Planning & Budget

Glen S. Tittermary
Director, Joint Legislative Audit & Review Commission

Robert P. Vaughan
Staff Director, House Appropriations Committee

David A. VonMoll
State Comptroller

Report of the Debt Capacity Advisory Committee
December 19, 2011

Background

Concern over the Commonwealth's increased use of debt prompted Governor Wilder to issue Executive Order 38 (1991) establishing the Debt Capacity Advisory Committee (Committee or DCAC). The DCAC was subsequently codified in Section 2.2-2712 of the Code of Virginia. The Committee was initially comprised of the Secretary of Finance, the State Treasurer, the Auditor of Public Accounts, the Director of Planning and Budget, the Director of the Joint Legislative Audit and Review Commission, and two citizen members appointed by the Governor. Legislation enacted in 2010 added three additional members to the Committee: the staff directors of the Senate Finance and House Appropriations Committees, and the State Comptroller. The Secretary of Finance serves as Chairman.

The Committee is vested with the power and duty to annually review the size and condition of the Commonwealth's tax-supported debt and to submit to the Governor and the General Assembly, by January 1 each year, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium. The Committee's recommendations must consider the amount of tax-supported debt that will be outstanding, and the projected debt service requirements over the following nine fiscal years. The Committee must also review annually the amount and condition of obligations for which the Commonwealth has a contingent or limited liability, or for which the Commonwealth is permitted to replenish reserve funds if deficiencies occur (i.e., "Moral Obligation" debt).

Control of debt burden is one of several key factors evaluated by rating agencies in their assessment of a state's credit quality. Other factors include: economic vitality and diversity, fiscal performance and flexibility, and administrative capabilities of government. The Commonwealth's triple-A bond rating, which it has held since 1938, helps ensure access to the capital markets at the lowest borrowing cost. But the ability to take on additional debt while maintaining the triple-A ratings is limited, because higher debt service payments (a fixed expense) result in less flexibility to respond to economic cycles and address other budgetary needs. However, because it is viewed in concert with many other variables, there is no precise point at which increased debt levels result in a lower bond rating.

In 1991, after consideration of various alternatives to assess capacity, the Committee decided upon a measure based on tax-supported debt service as a percent of revenues. This measure provides the most direct comparison of the state's obligations to the resources available. Also, policymakers control and may influence both variables that determine this ratio. In addition, measuring what portion of the State's resources is committed to debt-related fixed costs, provides a measure of the State's budgetary flexibility and its ability to respond to economic downturns.

The target level selected by the Committee was five percent (5%) – that is, that debt service on tax-supported debt obligations not exceed 5% of blended revenues. This measure is intended to ensure that annual debt service payments do not consume so much of the state's annual operating budget as to hinder the Commonwealth's ability to provide core government services. This measure has been endorsed by the DCAC in each year since.

It is important to note that maintaining debt service at less than 5% of revenues is merely a benchmark of affordability. It is not the only consideration. The cost of debt service must also be considered in light of other budget needs.

2009 Report of the DCAC

In the December 18, 2009 Report to the Governor and the General Assembly, the DCAC for the first time reported that there would be no additional debt capacity for the next two years. Based on the Committee's model, and the 2009 Official General Fund Revenue Forecast, there would be no additional debt capacity until 2014. This unprecedented finding resulted from (i) a precipitous decline in Virginia's actual and forecast revenues resulting from a nationwide economic downturn, and (ii) several recent years of significant bonded debt authorizations.

Recognizing that the lack of borrowing capacity and the perceived inability of the Commonwealth to address important capital needs may itself be viewed as a credit weakness, the DCAC requested a study by staff to help determine if the 5% ratio is still the best way to measure the Commonwealth's capacity, if the Committee should continue to rely on a single ratio tied to revenues, and how results can be smoothed to facilitate capital planning and avoid dramatic changes in capacity, particularly in times of extraordinary fluctuations in revenues. Staff from the House Appropriations Committee and the Senate Finance Committee assisted with the study.

2010 Debt Capacity Study

In September 2010 the draft study was presented to the DCAC, and on November 30, 2010, the Committee, by majority vote, adopted several changes to the debt capacity model. The Committee considered various alternatives, including changing the 5% measure, the use of other measures (e.g., debt per capita) to assess capacity, as well as changes to the treatment of transportation debt in the model. Ultimately, the primary changes adopted by the Committee were the (i) inclusion in the model of the .25% sales tax enacted in 2004 and certain recurring transfers to the general fund from non-general funds, (ii) the reduction of debt service carried in the model for amounts expected to be paid from non-general fund sources, (iii) a change to the interest rate proxy used to estimate the debt service on future borrowings, and (iv) using a ten-year average capacity to arrive at the Committee's recommendation rather than basing it solely on the next two year period. This latter recommendation is an effort to smooth the effect of dramatic revenue fluctuations, and to facilitate long-term capital planning. The target measure of annual debt service payments to annual blended revenues remains unchanged at 5%.

Debt Capacity Model

The DCAC Report is a tool to enable the Commonwealth to plan the issuance of its future obligations within future resource constraints. The Committee attempts to provide elected officials with information to enable them to balance capital funding needs with maintaining fiscal discipline and budgetary flexibility. The report can guide decision-makers in the development and implementation of the capital budget.

The Committee's Debt Capacity Model compares annual Blended Revenues from the Official

Revenue Forecast to the (i) the scheduled debt service payments on all outstanding tax-supported debt obligations, plus (ii) estimates of the debt service payments on all currently authorized, but unissued tax-supported debt obligations. Then a calculation is made to determine the amount of additional debt that could be authorized and issued without causing total debt service to exceed 5% of Blended Revenues.

Blended Revenues are comprised of general fund revenues, state revenues in the Transportation Trust Fund (TTF), and certain non-general fund transfers including ABC profits. Beginning with the 2010 Report, Blended Revenues also include the .25% sales tax enacted in 2004 and certain recurring non-general fund Appropriation Act transfers.

Tax-supported debt in the model includes general obligation bonds (excluding those general obligation bonds issued pursuant to Article X, Section 9(c) of the Constitution of Virginia for which debt service is paid from project revenues), debt secured by the TTF, obligations issued by the Virginia Public Building Authority (VPBA) and/or Virginia College Building Authority (VCBA) that are repaid from general fund appropriations, obligations payable under regional jail reimbursement agreements, bonded capital lease payments paid from a general fund appropriation, and other capital leases and installment purchases.

The impact of authorized but not yet issued bond programs on future operating budgets is an important element of debt management and assessing debt capacity. Accordingly, estimates for those programs are included in the debt capacity calculations. These estimates are based in part on draw schedules compiled by the Department of Planning and Budget or obtained from agencies on their authorized projects, while staying within the confines of the debt capacity model.

2011 Debt Capacity Recommendations

The debt capacity calculation (Exhibit A) shows that an additional $466.83 million in debt could be authorized and issued in each 2012 and 2013. This amount will cause projections of debt service as a percent of blended revenues to exceed five percent in some years and be below five percent in other years.

Other Recommendations

a) The Committee reiterated recommendations included in past reports for the General Assembly and the Governor to rescind any bond authorizations for projects that are not likely to be issued.
b) The Committee expressed its continued support of the use of traditional financing methods for state projects such as those offered through the issuance of general obligation bonds, or appropriation-supported programs through the VCBA or the VPBA, since capital lease and other conduit borrowings typically result in higher financing costs, and are ultimately still viewed as tax-supported debt.

Report of the Debt Capacity Advisory Committee
December 19, 2011

Review of Tax-Supported Debt

General Fund Supported Debt

The State issues two types of tax-supported debt: General Obligation (GO) Bonds and various kinds of appropriation-supported obligations. The Commonwealth's GO Bonds are secured by the full faith, credit of the Commonwealth, and are rated in the highest rating category by the bond rating agencies. Several factors contribute to the high rating, including the legal protections inherent in constitutionally permitted debt, investor confidence in the pledge of the full faith and credit of the state and the presumption of the availability of the government's full resources. GO bonds are generally the most transparent of the various types of state debt obligations and typically carry the lowest interest cost. GO bonds issued under Article X, Section 9(b) of the Constitution require approval by the voters at referendum.

Article X, Section 9(c) of the Constitution provides for the issuance of GO debt that is self-supporting (e.g., through tolls, dormitory fees, etc.) (9c Bonds). The GO pledge provides a back-stop in the event net project revenues are insufficient to service the debt. These bonds do not require voter approval, but do require a two-thirds majority approval by each house of the General Assembly. They also require the Governor to opine that net project revenues will be sufficient to pay debt service on the bonds. Because of the GO pledge, 9(c) debt is considered tax-supported debt for financial reporting purposes; however it is not included in the debt capacity model. Only if the net revenues are insufficient and the GO pledge is invoked will that debt be incorporated in the model. This has not occurred since 9c debt was first issued in 1973.

Commonwealth appropriation-supported debt includes bonded debt as well as certain capital lease and installment purchase obligations. Such debt is authorized by the General Assembly. Principal and interest payments on these obligations are made from annual debt service appropriations from the general fund or the TTF. These bonds are rated slightly lower than Virginia's GO bonds reflecting the marginally higher risk that amounts will not be annually appropriated. Depending upon market conditions, interest rates on appropriation-supported debt may range from 5 to 20 basis points higher than comparable GO bonds. The Commonwealth has increasingly relied on the use of appropriation-supported debt (e.g.,VPBA and VCBA) to provide financing for capital projects.

Transportation Debt

The rating agencies view all debt supported by state-wide, generally applied taxes and/or user fees to be "Tax-Supported Debt". The Transportation Trust Fund (TTF) is funded primarily from incremental revenues generated by increases in the retail sales and use tax, motor fuels tax and motor vehicle related taxes and fees enacted in the 1986 Special Session Acts, as well as other tax revenues subsequently dedicated (e.g., one-third of the insurance license tax in 2007). Those revenues, as well as the debt supported by those revenues are included in the Model. Not included in the Debt Capacity Model are highway maintenance and operating revenues (HMO), federal transportation revenues, and debt related to Federal Revenue Anticipation Notes (FRANS) paid from federal transportation revenues.

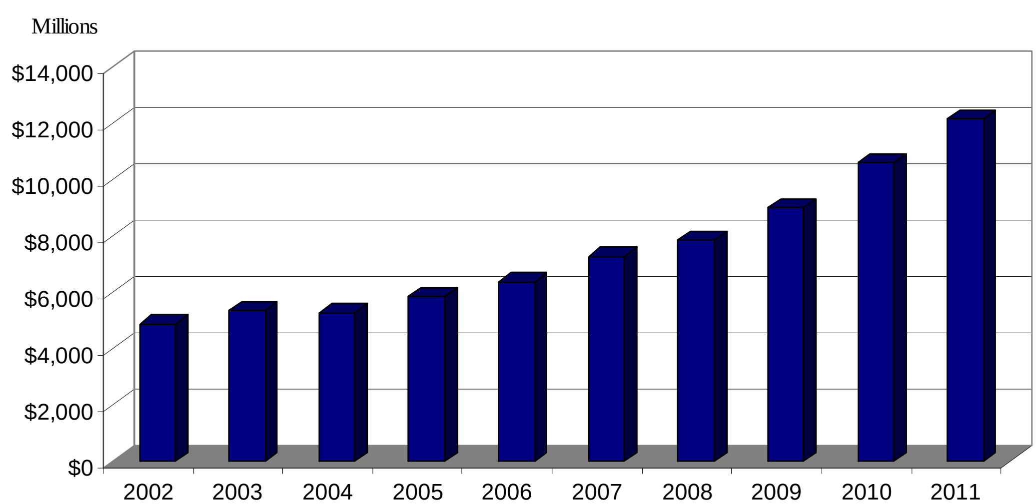
Transportation debt has been authorized and issued with a pledge that other available amounts, including the General Fund, may be appropriated for their repayment. Since repayment is not limited solely to the TTF (though in practice, payments are made from the TTF), these bonds are viewed by ratings agencies the same as other appropriation-supported obligations of the Commonwealth. The strength of the Commonwealth appropriation pledge, and depth of resources for repayment, may result in a higher rating than if secured by the TTF alone.

The CTB has issued bonds repaid from the TTF for construction projects involving U. S. Route 28, the U.S. Route 58 Corridor Development Program, the Northern Virginia Transportation District Program, the Oak Grove Connector in Chesapeake, and most recently, for the CPR Bonds approved by the General Assembly in 2007. Currently, debt service on debt paid by the TTF exceeds 5% of TTF revenues. Accordingly, to the extent the 5% measure is exceeded, capacity derived from the general fund is being utilized. This does not mean that general fund dollars are needed to supplement debt service payments on TTF debt. However, it does mean that some debt capacity derived from the general fund is being used to keep overall capacity for all tax-supported debt under the target of 5%.

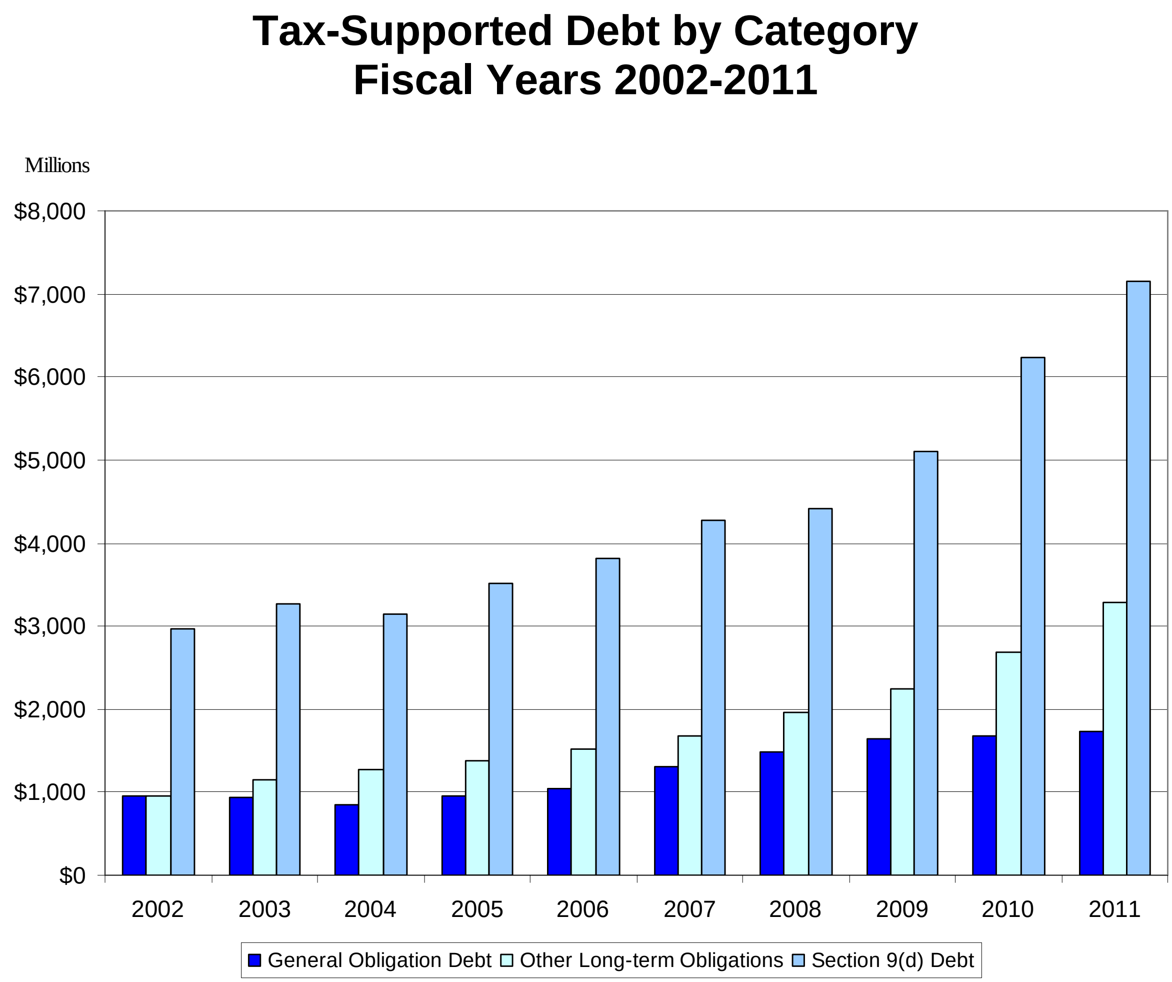
Trends in Tax-Supported Debt

Outstanding tax-supported debt of the Commonwealth increased by 150% from 2002 to 2011, with the largest increases occurring between 2009 and 2011. The table below includes long-term obligations such as pension liabilities, other post-employment benefits (OPEB) and compensated absences. These obligations are generally evaluated by rating agencies as part of an issuer's overall debt profile, but are not part of their calculations of debt ratios. Accordingly, they are not included in the Commonwealth's debt capacity calculation. The chart below provides a historical perspective on the Commonwealth's outstanding tax-supported debt, including these other long-term obligations.

Outstanding Tax-Supported Debt
Fiscal Years 2002-2011



Budget pressures and reduced investment earnings have caused the average funded ratio for state pension plans nationally to decline. These obligations are expected to place increased pressures on state budgets, and rating agencies have signaled an increased focus on this area.



The chart above shows outstanding tax-supported debt in three major categories: GO bonds, debt obligations incurred pursuant to Article X, Section 9(d) of the Virginia Constitution (i.e., appropriation-supported debt), and other long-term obligations, which includes pensions and OPEB.

General obligation debt, which had a 2011 balance outstanding of $1.73 billion, has increased 81% over the ten-year period. This is due in part to a $1 billion general obligation bond referendum approved by the voters in 2002. Bonds from 2002 authorization were issued incrementally as needed, with the final issue occurring during fiscal year 2010. This amount also includes 9c Bonds which are regularly authorized by the General Assembly for qualifying revenue-producing capital projects, and are not included in the debt capacity calculation.

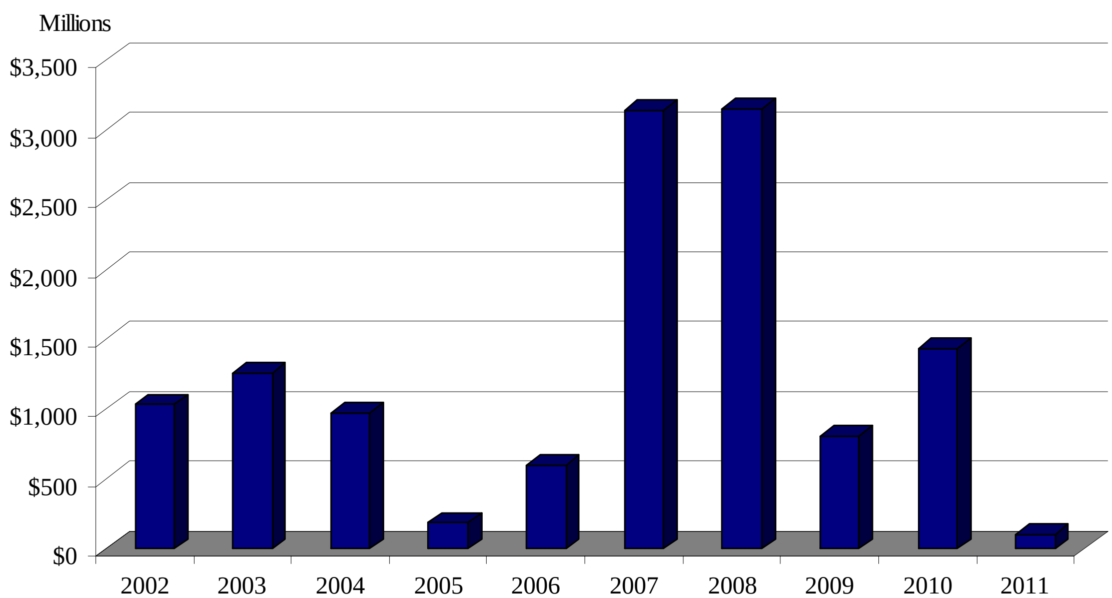
Section 9(d) debt includes tax-supported bonds issued by the VCBA, the VPBA, the CTB, and certain obligations of the Virginia Port Authority. It also includes bonded capital lease obligations, other long-term capital leases and installment purchases, and regional jail agreements. This category has shown the most significant growth over the period. Total outstanding at June 30, 2011 was $7.15 billion, versus $2.96 billion in 2002. This can be largely attributed to authorizations for VPBA and VCBA bonds in 2003, 2008 and 2009, and transportation bonds in 2007.

Other long-term obligations have also increased steadily, growing from $949 million in 2002 to $3.28 billion in 2011 – an increase of 246%. This growth is due in part to the required inclusion of OPEB obligations beginning in 2008.

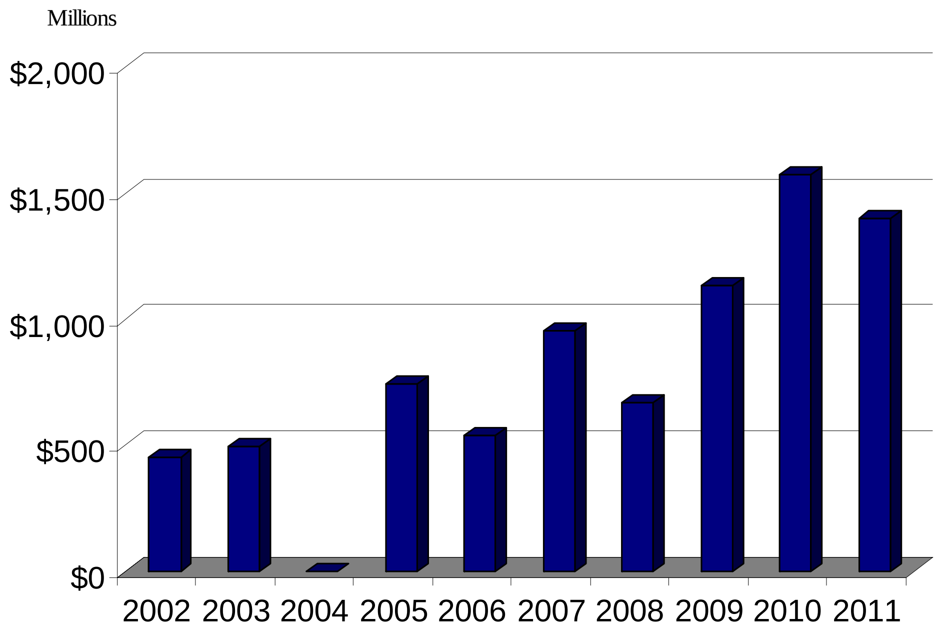
The following two charts illustrate the amounts of tax-supported debt authorized and issued from years 2002 – 2011. The 2007 authorization amount includes $3 billion in transportation bonds, and the 2008 authorization was primarily for the VPBA and VCBA programs. In 2011, a net of $107.5 million in additional tax-supported debt was authorized, $64.6 million of which was for 9c projects.

The $1.45 billion in tax-supported debt issued in 2011 was comprised of $600 million in CPR (transportation) bonds, $346.4 million for VCBA, $333.6 million for VPBA and $171.3 in 9c Bonds.

Tax-Supported Debt Authorizations
Fiscal Years 2002-2011



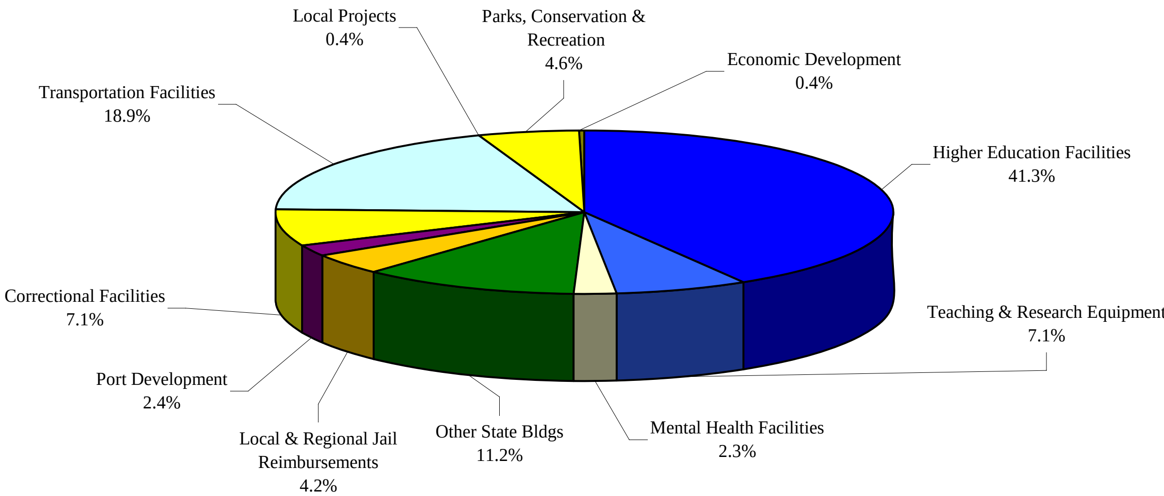
Tax Supported Debt Issued
Fiscal Years 2002-2011



Uses of Outstanding Tax-Supported Debt

The following chart illustrates how the Commonwealth has utilized its tax-supported debt over the last ten years. Forty-eight percent (48.4%) has been used for capital projects, and teaching and research equipment at state institutions of higher education. Transportation projects paid from the TTF is the next highest category at 18.9%. (Note: transportation projects financed with Federal Revenue Anticipation Notes are not considered tax-supported debt and are not included.)

Uses of New Tax-Supported Debt Issued*
FY 2002 - FY 2011



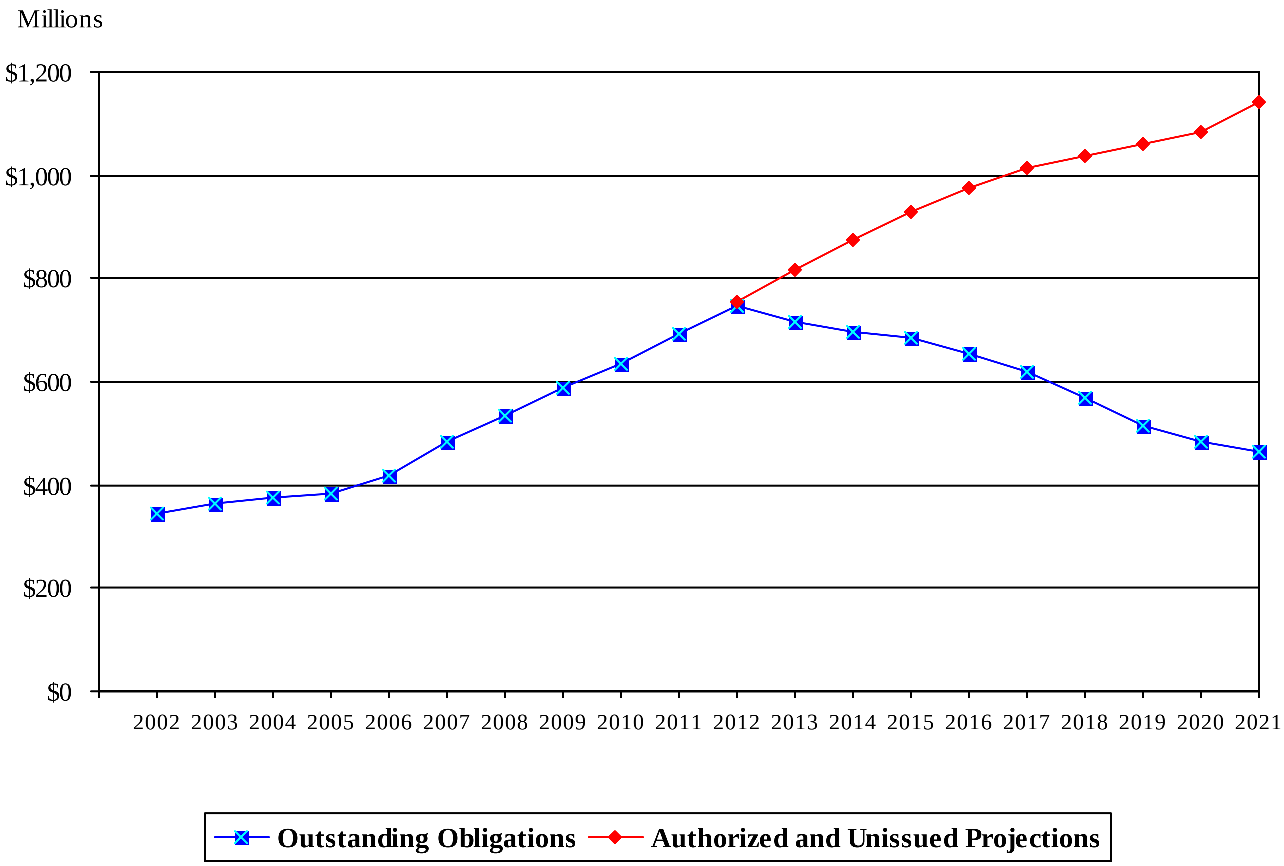
Ten-year Total = $8.1 Billion

*Does not include refunding bonds.

Debt Service

Amounts paid annually for debt service has increased, both on an absolute basis and as a percentage of Blended Revenues. This trend is expected to continue, as the amount of outstanding debt increases. Annual debt service, including the estimated debt service on all currently authorized but unissued amounts, is illustrated below.

Tax-Supported Debt Service: Actual and Projected
Fiscal Years 2002 – 2021*



* Assumes debt is authorized and issued in future periods in accordance with the Model's current assumptions. Past data includes lease revenue bonds issued by the Virginia Biotech Research Park Authority, Innovative Technology Authority and Newport News Industrial Development Authority. Does not include other capital leases, installment purchase or regional jail reimbursement agreement payments.

Review of State Credit Ratings and Comparative Ratios

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis going forward. As a barometer of financial stress, credit ratings are an important factor in the public credit markets and can influence the interest rates a borrower must pay. The prolonged controversy over the United States raising the statutory debt ceiling, and the fiscal policy debate on federal spending have resulted in actions relating to the U. S. sovereign rating, and in turn, the Commonwealth's bond rating.

Report of the Debt Capacity Advisory Committee
December 19, 2011

In July 2011, Moody's placed the U. S. on review for possible downgrade. Citing vulnerability to the U. S. government rating, the ratings of five triple-A states, including Virginia, and 303 other municipal credits were placed on review for possible downgrade. On December 7, 2011, following the impasse of the Congressional Joint Select Committee of Deficit Reduction, and additional assessment of the rating outlooks, Moody's announced that two of the states (South Carolina and Tennessee) were revised to a stable outlook, while the other three states (Maryland, New Mexico and Virginia) would remain on negative outlook. A similar process occurred for local triple-A issuers, and numerous Virginia localities, particularly in the Northern Virginia area also remain on negative outlook. Moody's assessment focused on five key areas: federal employment, federal procurement contracts, health care employment, Medicaid expenditures, and variable rate debt exposure.

Standard & Poor's (S&P) took a different approach, and on August 5, 2011 lowered the U. S. sovereign rating from AAA/stable to AA+/negative. S&P also placed the rating of certain issuers with a "direct link" to the U.S. sovereign rating, such as the Virginia Housing Development Authority, on Negative Credit Watch. S&P continues to rate Virginia's GO bonds as AAA/stable.

Fitch appears to have adopted a more wait-and-see approach. They have indicated a review of the U. S. sovereign credit in light of the deliberations of the Joint Select Committee on Deficit Reduction and economic outlook for the U. S. They have indicated that state and local rating will not necessarily move in lock-step with the U. S. rating since state and local governments have considerable autonomy and possess their own taxing power and borrowing authority. However, state and local ratings could be affected by U. S. policy changes.

In their October 2011 ratings reports, the rating agencies affirmed the Commonwealth's general obligation bond ratings at Aaa (Moody's), AAA (S&P) and AAA (Fitch). The S&P and Fitch ratings reflect a "stable" outlook; while the Moody's outlook is negative. The agencies continue to note Virginia's credit strengths: long-standing history of conservative fiscal management, a low but growing debt burden that is controlled through a debt affordability model, strong financial policy and practices, and a diverse economy with relatively low unemployment. Challenges include: spending pressures from education and transportation needs within the context of more limited resources, managing the effects of a sluggish economy, and the possible effects of federal budget reductions. Ratings on the Commonwealth's appropriation-supported programs are "one notch" off the general obligation rating at Aa1 (Moody's), AA+ (S&P) and AA+ (Fitch). Similarly, the Moody's rating carries a negative outlook, while Standard & Poor's and Fitch, a stable outlook.

In its *2011 State Debt Medians Report* ("Moody's Medians"), Moody's notes that overall state net tax-supported debt increased by 8.5% in 2010 to $499 billion. Nationwide, median net tax-supported debt per capita increased by 14% to $1,066 from $936, while net tax-supported debt as a percentage of personal income increased to 2.8% from 2.5%.

Report of the Debt Capacity Advisory Committee
December 19, 2011

The following tables illustrate how Virginia compares to other triple-A states.

AAA/Aaa/AAA STATE DEBT BURDENS FROM 2002-2011
PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt per Capita (1)(2)

	2011 Ranking	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Delaware	6	$2,676	$2,489	$2,128	$2,002	$1,998	$1,845	$1,865	$1,800	$1,599	$1,650
Maryland	15	1,681	1,608	1,507	1,297	1,171	1,169	1,064	1,077	977	879
Utah	20	1,222	957	447	542	621	707	792	846	682	708
Georgia	24	1,103	1,120	984	954	916	784	803	827	802	804
VIRGINIA	**26**	**1,058**	**895**	**782**	**764**	**692**	**601**	**589**	**546**	**546**	**566**
North Carolina *	34	782	765	832	898	728	804 *	682 *	556 *	429 *	375
Missouri	35	775	780	670	675	613	496	449	461	368	347
Iowa*	48	270	73 *	79 *	98 *	104 *	110 *	130 *	139 *	156 *	166 *
Median All States		1,066	936	865	889	787	754	703	701	606	573
AAA Median		1,081	926	807	831	710	746	737	692	614	637
AAA Average		1,196	1,086	929	904	855	815	797	782	695	687

** States were not triple triple A during entire 2002-2011 period.*

(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

(2) Year refers to prior calendar year-end.

Net Tax-Supported Debt as Percent of Personal Income (2) (3)

	2011 Ranking	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Delaware	5	6.8 %	6.2 %	5.4 %	5.2 %	5.5 %	5.3 %	5.5 %	5.6 %	4.9 %	5.3 %
Utah	16	3.9	3.2	1.5	1.9	2.3	2.7	3.2	3.5	2.8	3.0
Maryland	18	3.5	3.4	3.3	3.0	2.8	3.0	2.9	3.0	2.7	2.6
Georgia	20	3.3	3.3	3.0	3.0	3.0	2.7	2.8	2.9	2.8	2.9
VIRGINIA	**30**	**2.4**	**2.1**	**1.9**	**1.9**	**1.8**	**1.7**	**1.8**	**1.7**	**1.7**	**1.8**
North Carolina*	33	2.3	2.3	2.5	2.8	2.4	2.8 *	2.5 *	2.0 *	1.5 *	1.4
Missouri	35	2.2	2.2	2.0	2.1	1.9	1.6	1.5	1.6	1.3	1.3
Iowa*	48	0.7	0.2 *	0.2 *	0.3 *	0.3 *	0.4 *	0.5 *	0.5 *	0.6 *	0.6 *
Median All States		2.8%	2.5%	2.5%	2.6%	2.4%	2.5%	2.5%	2.5%	2.2%	2.3%
AAA Median		2.9%	2.8%	2.3%	2.5%	2.4%	2.7%	2.7%	2.5%	2.2%	2.2%
AAA Average		3.1%	2.9%	2.5%	2.5%	2.5%	2.5%	2.6%	2.6%	2.3%	2.4%

** States were not triple triple during entire 2002-2011 period.*

(2) Year refers to prior calendar year-end.

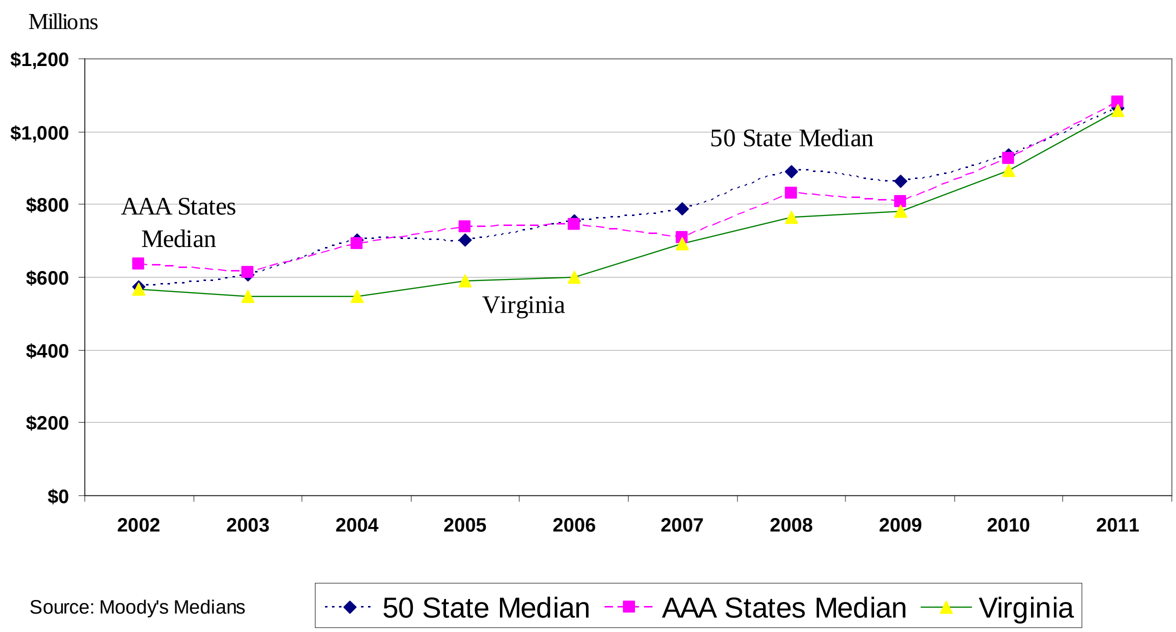
(3) Personal income is based on Census data from two years prior to each respective year's debt analyzed.

While these rankings are useful for comparison purposes, it is important to note that many other factors contribute to a state's overall rating. For example, while ratios for Delaware appear high compared to other triple-A states, a statutory requirement for the rapid amortization of debt mitigates the effect of the higher debt levels.

Moody's also ranks the states in terms of total tax supported debt. California is ranked first at $94.7 billion, and Nebraska is ranked last at $23 million. Virginia is ranked sixteenth with $8.4 billion outstanding.

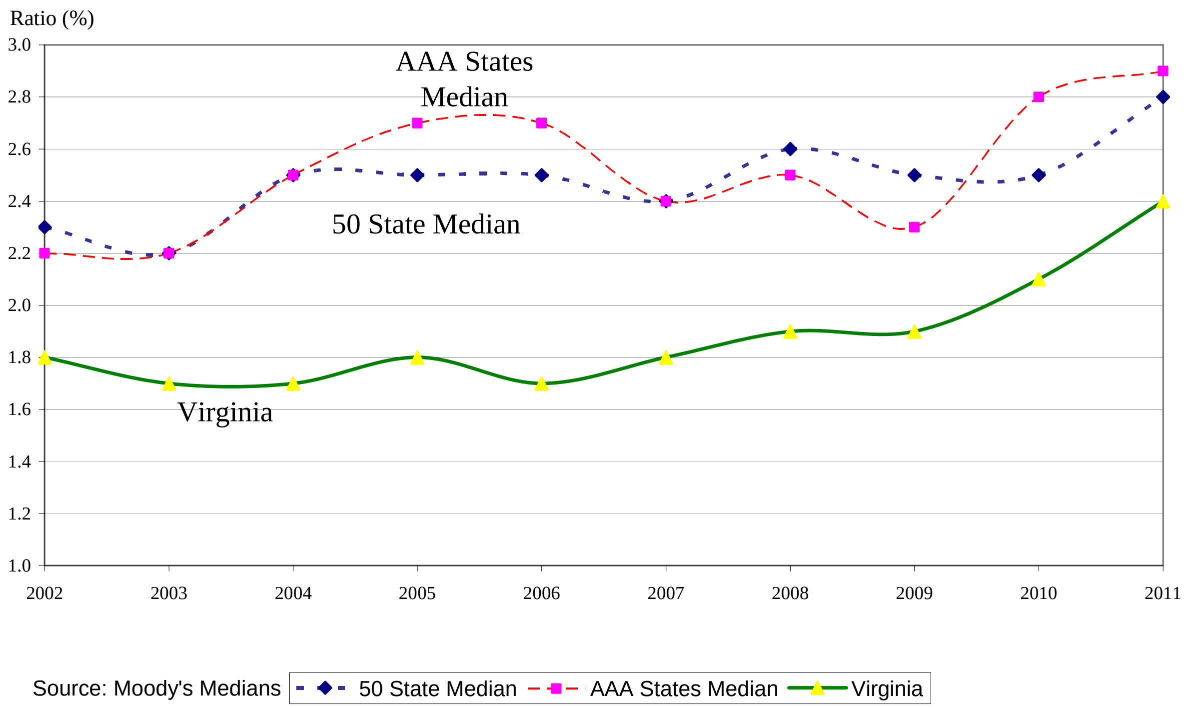
The following chart compares Virginia's net tax-supported debt per capita with the median of all states and other triple-A states.

Net Tax-Supported Debt per Capita
Virginia vs Moody's U.S. 50-State Median and other AAA States
2002 – 2011



Similarly, the chart below shows Virginia's debt as a percentage of personal income compared with the median of all states and other triple-A states.

Net Tax-Supported Debt as Percentage of Personal Income on Virginia vs Moody's U.S. 50-State Median and other AAA States 2002 – 2011



Appendix A

Debt Capacity Calculation, Sensitivity Analysis and Moral Obligation Update

December 19, 2011

<u>Debt Capacity Model</u>

Virginia's Debt Capacity Measure:

- **Calculation:**
  Tax-Supported Debt Service < 5% of Blended Revenues.
- **Recommendation:**
  Expressed in terms of a ten year average.

Model Characteristics:

- Covers a 10-year issuance period.
- Incorporates currently authorized but unissued debt.
- Uses Blended Revenues from Official Forecast.

Model Assumption:

- **Term and structure:**
  - 20-year bonds.
  - Interest rate based on the average of the last twelve quarters of The Bond Buyer 11 Bond Index for GO debt (4.2196 %) plus 25 basis points for 9(d) debt (4.4696 %).

Model Includes:

- **Blended Revenues from Official Forecast:**
  - General fund revenues, state revenues in Transportation Trust Fund, transfers of ABC profits and certain recurring non-general fund transfers.
- **Actual and Projected Debt Service:**
  - Actual debt service on all issued tax-supported debt, including capital leases, installment purchases and regional jail reimbursement agreements.
  - Debt service on authorized but unissued tax-supported debt.
    - Level debt service payments (except 9(b) General Obligation debt).
    - 9(b) General Obligation debt is amortized on a level principal basis.
    - VCBA Equipment Notes amortized over 7-year term
    - CTB Bonds amortized over 25-year term

Outstanding Tax-supported Debt as Determined by the DCAC includes:

- General obligation bonds (Section 9(a) and 9(b)). Self-supporting 9(c) projects are not included.
- Obligations issued by the Commonwealth Transportation Board or Virginia Port Authority that are secured by the Transportation Trust Fund.
- Obligations issued by the Virginia Public Building Authority and the Virginia College Building Authority secured, in whole or in part, by general fund appropriations.
- Obligations payable under regional jail reimbursement agreements between the Treasury Board and localities or regional jail authorities.
- Capital leases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
- Installment purchases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
- Obligations for which the debt service is derived from payments received from the Commonwealth on a capital lease.
- That portion of outstanding moral obligation debt for which the underlying debt service reserve fund has been utilized to pay all or a portion of debt service, and for which the General Assembly has appropriated funds to replenish all or a portion of such debt service reserve.

Authorized but Unissued Tax-supported Debt Included in the DCAC Model:

- Must be authorized by an Act of the General Assembly with no contingency for subsequent General Assembly approval.

Moral Obligation Debt:

- In the event a moral obligation issuer has experienced an event of a default on an underlying revenue stream and been forced to draw on the debt service reserve fund to pay debt service, the Committee shall immediately meet and review the circumstances surrounding such event and report its findings to the Governor and the General Assembly.
- In the event this section is invoked, the Committee's Report to the Governor and General Assembly shall include a Model scenario showing annual debt capacity including that portion of the moral obligation debt.
- Inclusion of the moral obligation debt in the Model is in no way intended to bind the Governor or General Assembly to make future appropriations to replenish future draws on the debt service reserve fund(s).
- The subject debt will be removed from the Model once the General Assembly has not appropriated funds to replenish the debt service reserve fund(s).

Currently Authorized Tax-Supported Debt Issuance Assumptions
December 19, 2011
(Dollars in Millions)

	9(b)	VPBA	VCBA 21st Century Equipment	VCBA 21st Century Projects	CPR Transportation	NVTD Transportation	VPA	Total
Authorized & Unissued as of June 30, 2011	$ -	$ 704.3	$ 115.0	$ 1,921.3	$ 2,087.3	$ 24.7	$ 125.0	$ 4,977.6
Issued Jul 1 - Dec 31, 2011		298.5	48.6	223.9			60.0	$ 631.0
Assumed Issued:								
FY 2012	-	-	56.0	300.0	600.0	-	-	956.0
FY 2013	-	118.1	-	380.0	600.0	-	65.0	1,163.1
FY 2014	-	102.0	-	300.0	300.0	24.7	-	726.7
FY 2015	-	156.8	-	400.0	50.0	-	-	606.8
FY 2016-21	-	-	-	291.3	537.0	-	-	828.3
Total Planned	-	376.9	56.0	1,671.3	2,087.0	24.7	65.0	4,280.9
Subtotal Issued & Planned		675.4	104.6	1,895.2	2,087.0	24.7	125.0	4,911.9
Authorized Debt Assumed Unissued [1]	$ -	$ 28.9	$ 10.4	$ 26.1	$ 0.3	$ -	$ -	$ 65.7

[1] Assumed funded from premium from bonds sold.

DEBT CAPACITY MODEL

(Dollars in Millions)

December 19, 2011

Base Model

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = 5.0%

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Fiscal Year	**Blended Revenues**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service on Debt Issued**	**Actual Outstanding Debt Service as a % of Revenues**	**Annual Payments for Debt Service on All Planned Debt Issuances**	**Actual & Projected Debt Service as a % of Revenues**	**Net Capacity to Pay Debt Service**	**Amount of Additional Debt that may Be Issued**	**Debt Service on Amount of Additional Debt that may Be Issued**	**Remaining Capacity to Pay Debt Service**	**Total Debt Service as a % of Revenues**
Actual 2003	11,727.41	586.37	362.19	3.09%	N/A	3.09%	224.18	N/A	N/A	224.18	3.09%
Actual 2004	12,761.52	638.08	373.55	2.93%	N/A	2.93%	264.52	N/A	N/A	264.52	2.93%
Actual 2005	15,099.55	754.98	384.50	2.55%	N/A	2.55%	370.48	N/A	N/A	370.48	2.55%
Actual 2006	16,066.10	803.31	419.01	2.61%	N/A	2.61%	384.30	N/A	N/A	384.30	2.61%
Actual 2007	16,847.70	842.39	482.33	2.86%	N/A	2.86%	360.06	N/A	N/A	360.06	2.86%
Actual 2008	17,076.40	853.82	532.95	3.12%	N/A	3.12%	320.87	**N/A**	N/A	320.87	3.12%
Actual 2009	15,680.70	784.04	587.33	3.75%	N/A	3.75%	196.71	**N/A**	N/A	196.71	3.75%
Actual 2010	15,871.20	793.56	633.45	3.99%	N/A	3.99%	160.11	**N/A**	N/A	160.11	3.99%
Actual 2011	16,751.10	837.56	693.64	4.14%	N/A	4.14%	143.92	**N/A**	N/A	143.92	4.14%
2012	17,474.70	873.74	747.02	4.27%	56.70	4.60%	70.02	**0.00**	0.000	70.02	4.60%
2013	18,009.10	900.46	717.59	3.98%	146.74	4.80%	36.13	**0.00**	0.000	36.13	4.80%
2014	18,807.90	940.40	695.66	3.70%	226.41	4.90%	18.32	**0.00**	0.000	18.32	4.90%
2015	19,565.30	978.27	685.85	3.51%	291.39	4.99%	1.02	**0.00**	0.000	1.02	4.99%
2016	20,460.00	1,023.00	655.45	3.20%	347.52	4.90%	20.04	**253.41**	19.014	1.02	4.99%
2017	21,278.40	1,063.92	620.25	2.91%	372.69	4.67%	70.98	**678.36**	69.914	1.06	4.99%
2018	22,086.30	1,104.32	567.79	2.57%	376.01	4.27%	160.51	**934.13**	140.005	20.51	4.91%
2019	23,065.97	1,153.30	516.77	2.24%	380.45	3.89%	256.08	**934.13**	210.096	45.98	4.80%
2020	24,090.01	1,204.50	483.30	2.01%	369.85	3.54%	351.36	**934.13**	280.187	71.17	4.70%
2021	25,160.48	1,258.02	463.43	1.84%	374.25	3.33%	420.34	**934.13**	350.278	70.06	4.72%
							10 Year Average:	$466.83	Excess Capacity:	$933.67	
										2.0000	

[1] Revenues include the actual fiscal year revenues per the Annual Reports of the Comptroller (2003-2005), Actual revenues as reported in official November forecasts presented in years 2006-2010, Standard General Fund Actual and Forecasts December (Dated-12/19/11) based on US & Virginia economic outlook incorporating GACRE recommendations, including 0.25% Sales tax increment adopted in 2004, the Virginia Health Care Fund revenue as permitted by Section 32.1-366 of the Code of Virginia, certain recurring Transfers Per the Appropriation Act, transfers from Alcoholic Beverage Control Board and certain revenues from the Transportation Trust Fund official revenue forecasts as of 12/19/11.

[2] Base Capacity to Pay Debt Service equals 5% of the Revenues listed in Column [1].

[3] Equals the annual payments of principal and interest for outstanding tax-supported debt as of 6/30/11, excluding 9(c) debt, Build America Bond (BAB) interest subsidy, and Non-General Fund portion of debt service paid on certain Virginia College Building Authority (VCBA) Bonds .

[4] Equals actual outstanding debt service as a percentage of revenues, Column [3] / Column [1].

[5] Equals the annual estimated payments of principal and interest for all currently authorized tax-supported debt planned for issuance within the next ten fiscal years. See Assumed Issuances of Currently Authorized but Unissued Tax-Supported Debt. Also includes debt service for long-term capital leases, installment purchase obligations and regional jail reimbursements Per Treasury Board Reimbursement Agreements..

[6] Equals annual payments for debt service on debt issued and planned debt issuances, divided by Revenues. Column [3] + Column [5] / Column [1]

[7] Equals the amount of revenue available to pay debt service after principal and interest on all outstanding and all planned issuances of tax-supported debt has been paid. Column [2] - Column [3] -Column [5].

[8] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

[9] Equal to annual amount of principal and interest to be paid on Column [8].

[10] Equals Column [7] minus Column [9].

[11] Equals the sum of all debt service payments divided by Revenues. (Column [3] + Column [5] + Column [9]) / Column [1].

DEBT CAPACITY MODEL

(Dollars in Millions)

December 19, 2011

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = 5.0%

Base Model - Average Solution Illustration

Fiscal Year	[1] Blended Revenues	[2] Base Capacity to Pay Debt Service	[3] Annual Payments for Debt Service on Debt Issued	[4] Actual Outstanding Debt Service as a % of Revenues	[5] Annual Payments for Debt Service on All Planned Debt Issuances	[6] Actual & Projected Debt Service as a % of Revenues	[7] Net Capacity to Pay Debt Service	[8] Amount of Additional Debt that may Be Issued	[9] Debt Service on Amount of Additional Debt that may Be Issued	[10] Remaining Capacity to Pay Debt Service	[11] Total Debt Service as a % of Revenues
Actual 2003	11,727.41	586.37	362.19	3.09%	N/A	3.09%	224.18	N/A	N/A	224.18	3.09%
Actual 2004	12,761.52	638.08	373.55	2.93%	N/A	2.93%	264.52	N/A	N/A	264.52	2.93%
Actual 2005	15,099.55	754.98	384.50	2.55%	N/A	2.55%	370.48	N/A	N/A	370.48	2.55%
Actual 2006	16,066.10	803.31	419.01	2.61%	N/A	2.61%	384.30	N/A	N/A	384.30	2.61%
Actual 2007	16,847.70	842.39	482.33	2.86%	N/A	2.86%	360.06	N/A	N/A	360.06	2.86%
Actual 2008	17,076.40	853.82	532.95	3.12%	N/A	3.12%	320.87	**N/A**	N/A	320.87	3.12%
Actual 2009	15,680.70	784.04	587.33	3.75%	N/A	3.75%	196.71	**N/A**	N/A	196.71	3.75%
Actual 2010	15,871.20	793.56	633.45	3.99%	N/A	3.99%	160.11	**N/A**	N/A	160.11	3.99%
Actual 2011	16,751.10	837.56	693.64	4.14%	N/A	4.14%	143.92	**N/A**	N/A	143.92	4.14%
2012	17,474.70	873.74	747.02	4.27%	56.70	4.60%	70.02	**0.00**	0.000	70.02	4.60%
2013	18,009.10	900.46	717.59	3.98%	146.74	4.80%	36.13	**466.83**	35.028	1.10	4.99%
2014	18,807.90	940.40	695.66	3.70%	226.41	4.90%	18.32	**466.83**	70.056	(51.73)	5.28%
2015	19,565.30	978.27	685.85	3.51%	291.39	4.99%	1.02	**466.83**	105.084	(104.06)	5.53%
2016	20,460.00	1,023.00	655.45	3.20%	347.52	4.90%	20.04	**466.83**	140.112	(120.07)	5.59%
2017	21,278.40	1,063.92	620.25	2.91%	372.69	4.67%	70.98	**466.83**	175.140	(104.16)	5.49%
2018	22,086.30	1,104.32	567.79	2.57%	376.01	4.27%	160.51	**466.83**	210.168	(49.65)	5.22%
2019	23,065.97	1,153.30	516.77	2.24%	380.45	3.89%	256.08	**466.83**	245.195	10.88	4.95%
2020	24,090.01	1,204.50	483.30	2.01%	369.85	3.54%	351.36	**466.83**	280.223	71.13	4.70%
2021	25,160.48	1,258.02	463.43	1.84%	374.25	3.33%	420.34	**466.83**	315.251	105.08	4.58%

Average:	$466.83	Excess Capacity:	$1,400.49
			3.0000

The Debt Capacity Model

Column Descriptions

(1) **Blended Revenues** include all general fund revenues, ABC profits transferred to the general fund, state tax revenues in the Transportation Trust Fund, .25% sales tax enacted in 2004 and certain recurring non-general fund transfers.

(2) **Base Capacity to Pay Debt Service** is calculated as 5% of Blended Revenues. [Column 2 = Column 1 x .05]

(3) **Annual Payments for Debt Service on Debt Issued** is actual debt service on all tax-supported debt outstanding at the end of the most recent fiscal year, excluding (i) 9(c) debt, (ii) the subsidized portion of interest on Build America Bonds and (iii) non-general fund portion of debt service paid on certain VCBA bonds.

(4) **Actual Outstanding Debt Service as a % of Revenues** is the percentage of revenues required for payments on outstanding bonds.

(5) **Annual Payments for Debt Service on All Planned Debt Issuances** is the estimated amount of debt service for currently authorized and unissued tax-supported debt to be issued within the ten-year period.

(6) **Actual and Planned Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances as a percentage of Blended Revenues.

(7) **Net Capacity to Pay Debt Service** is Total Capacity to Pay Debt Service less Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances. [Column 7= 2-3-5]

(8) **Amount of Additional Debt that May Be Issued** is the amount of additional tax-supported debt (above and beyond that which is currently authorized but unissued) that may be issued in any given year without exceeding the Base Capacity to pay debt service.

(9) **Debt Service on the Amount of Additional Debt that May Be Issued** is the estimated amount of debt service for the Additional Debt that may be Authorized and Issued.

(10) **Remaining Capacity to Pay Debt Service** is the residual amount derived from the Net Capacity to Pay Debt Service less Debt Service on the Amount of Additional Debt that may be Authorized and Issued. [Column 10=7-9]

(11) **Total Debt Service as a % of Revenues** is the percentage of Blended Revenues used for sum of Annual Payments for Debt Service on Debt Issued, Annual Payments for Debt Service on All Planned Debt Issuances and Debt Service on the Amount of Additional Debt that may be Authorized and Issued.

Model Solution

- Model solves for the additional annual capacity above and beyond amounts already authorized and assumed issued over the next ten fiscal years at the base capacity to pay debt service (5%), while maintaining two additional years of capacity at the end of the ten-year period.
- This solution results in an average annual capacity of $466.83 million.
- Accordingly, the Committee finds the additional tax supported debt that may prudently be authorized in each 2012 and 2013 is $466.83 million.

DEBT CAPACITY MODEL REVENUE DATA

December 2011

(Dollars In Millions)

Fiscal Year	General Fund		Transportation Trust Fund [10]		General Fund Growth		Transportation Trust Fund Growth		ABC Profit Transfer		Total Revenue [7]	Blended Revenue Growth Rate [8]
Actual 2001	11,160.73	(1)	753.29	(3)	3.04%	(1)	9.21%	(3)	28.10	(1)	11,942.12	3.38%
Actual 2002	10,575.93	(1)	749.33	(4)	-5.24%	(1)	-0.53%	(4)	25.40	(1)	11,350.65	-4.95%
Actual 2003	10,968.27	(1)	744.94	(4)	3.71%	(1)	-0.59%	(4)	14.20	(1)	11,727.41	3.32%
Actual 2004	11,945.01	(1)	799.70	(4)	8.91%	(1)	7.35%	(4)	16.80	(1)	12,761.52	8.82%
Actual 2005	14,228.15	(1)	846.50	(4)	19.11%	(1)	5.85%	(4)	24.90	(1)	15,099.55	18.32%
Actual 2006	15,123.20	(4)	912.90	(4)	6.29%	(4)	7.84%	(4)	30.00	(4)	16,066.10	6.40%
Actual 2007	15,851.10	(4)	969.00	(4)	4.81%	(4)	6.15%	(4)	27.60	(4)	16,847.70	4.86%
Actual 2008	16,071.70	(4)	968.60	(4)	1.39%	(4)	-0.04%	(4)	36.10	(4)	17,076.40	1.36%
Actual 2009	14,622.60	(4)	1,014.00	(4)	-9.02%	(4)	4.69%	(4)	44.10	(4)	15,680.70	-8.17%
Actual 2010	14,815.00	(4)	1,006.20	(4)	1.32%	(4)	-0.77%	(4)	50.00	(4)	15,871.20	1.21%
Actual 2011	15,685.20	(2)	1,015.40	(4)	5.87%	(4)	0.91%	(4)	50.50	(4)	16,751.10	5.54%
2012	16,364.40	(2)	1,057.00	(4)	4.33%	(2)	4.10%	(4)	53.30	(2)	17,474.70	4.32%
2013	16,863.00	(2)	1,092.40	(4)	3.05%	(2)	3.35%	(4)	53.70	(2)	18,009.10	3.06%
2014	17,622.30	(2)	1,131.60	(4)	4.50%	(2)	3.59%	(4)	54.00	(2)	18,807.90	4.44%
2015	18,339.00	(2)	1,177.00	(4)	4.07%	(2)	4.01%	(4)	49.30	(2)	19,565.30	4.03%
2016	19,184.60	(2)	1,226.10	(4)	4.61%	(2)	4.17%	(4)	49.30	(2)	20,460.00	4.57%
2017	19,958.20	(2)	1,270.90	(4)	4.03%	(2)	3.65%	(6)	49.30	(9)	21,278.40	4.00%
2018	20,727.90	(2)	1,309.10	(4)	3.86%	(2)	3.01%	(6)	49.30	(9)	22,086.30	3.80%
2019	21,681.38	(5)	1,335.28	(6)	4.60%	(5)	2.00%	(6)	49.30	(9)	23,065.97	4.44%
2020	22,678.73	(5)	1,361.99	(6)	4.60%	(5)	2.00%	(6)	49.30	(9)	24,090.01	4.44%
2021	23,721.95	(5)	1,389.23	(6)	4.60%	(5)	2.00%	(6)	49.30	(9)	25,160.48	4.44%

(1) Annual Reports of the Comptroller, FY 2001-2005.

(2) December Standard General Fund Forecast for FY 2011-2018, including Virginia Health Care Fund revenue, as permitted by Section 32.1-366 of the Code of Virginia, .0.25% Sales tax (enacted 2004), and certain recurring Transfers per the Appropriation Act.

(3) Department of Motor Vehicles.

(4) Department of Taxation.

(5) Based on flat growth rate of 4.60% for years 2019-2021 per Department of Taxation.

(6) Based onlat growth rate of 2.00% for years 2019-2021, per Department of Taxation.

(7) Total Revenue = GF + TTF + ABC.

(8) Blended Revenue Growth Rate = (Current FY Total Revenue / Prior FY Total Revenue) - 1.

(9) Derived from final year estimate per respective December Standard General Fund and Standard Transportation Trust Fund Forecasts, dated December 19, 2011.

(10) Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts or Toll Revenues.

Annual Debt Service Requirements and Other Long-Term Obligations

Outstanding As of June 30, 2011

(Dollars in Thousands)

Fiscal Year Ending June 30	General Obligation Debt 9(b)	Other Tax-Supported Debt Section 9(d)	Capital Lease and Installment Purchases	Regional Jail Reimbursements	Debt Service on Planned Issuances	Debt Service on Unallocated Debt Capacity	GRAND TOTAL
2012	119,318	627,699	47,526	2,636	6,536	0	803,715
2013	115,396	602,193	47,526	2,637	96,576	0	864,327
2014	106,692	588,970	47,526	190	178,693	0	922,072
2015	98,167	587,686	47,526		243,866	0	977,244
2016	87,293	568,153	47,526		299,991	19,014	1,021,977
2017	76,749	543,499	47,526		325,168	69,914	1,062,855
2018	71,054	496,735	47,526		328,487	140,005	1,083,806
2019	67,703	449,068	47,526		332,927	210,096	1,107,319
2020	65,469	417,828	47,526		322,320	280,187	1,133,330
2021	63,174	400,261	47,526		326,728	350,278	1,187,967
TOTAL	$871,015	$5,282,091	$475,257	$5,463	$2,461,292	$1,069,494	$10,164,612

*Unaudited

<u>The Debt Capacity Model Sensitivity Analysis</u>

2-Year Reserve Excess Capacity Sensitivity

- The Base Model solution provides for average debt capacity of $466.83 million over the model period, with two years of average capacity, beyond the 10-year model period.

  - If the Model solution is altered to reduce the two years of excess capacity to one year of excess capacity, the resulting debt capacity is $509.27 million.

  - If the Model solution is altered to reduce the two years of excess capacity beyond the model period to no excess capacity, the resulting average debt capacity is $560.20 million.

Revenue Sensitivity

- If the Model solution is altered to increase or decrease Blended Revenues, the following <u>incremental</u> average debt capacity changes occur:

  - Assuming a change of $100 million in each and every year, the incremental change is $5.55 million.

  - Assuming a 1% change of revenues in each and every year, the incremental change is $13.17 million.

Interest Rate Sensitivity

- If the Model solution is altered to change interest rates, the following changes to average debt capacity occur:

  - Add 100 basis points to base rate, and average capacity decreases to $417.09 million.

  - Subtract 100 basis points from base rate, and average capacity increases to $523.32 million.

Debt of the Commonwealth
(Dollars in Thousands)

	As of June 30, 2011	As of June 30, 2010
Tax-Supported Debt		
9(b) General Obligation [1]	914,574	999,841
9(c) General Obligation - Higher Education [2]	765,280	631,275
9(c) General Obligation - Transportation [2]	26,355	28,394
9(c) General Obligation - Parking Facilities [2]	19,445	21,151
Commonwealth Transportation Board	2,008,601	1,428,918
Virginia Public Building Authority	2,418,513	2,276,819
Virginia Port Authority	186,011	194,287
Virginia College Building Authority - 21st Century & Equip	1,909,586	1,677,617
Innovative & Entrepreneurship Investment Authority [5]	3,465	4,480
Virginia Biotechnology Research Park Authority	39,955	42,650
Transportation Notes Payable	8,000	8,000
Capital Leases	206,738	201,501
Installment Purchases	219,291	214,976
Regional Jail Reimbursement Agreements	4,617	6,445
Virginia Public Broadcasting Board	0	2,990
Virginia Aviation Board	1,336	1,623
Industrial Development Authority Obligations [3]	0	5,150
Economic Development Authority Obligations [4]	85,827	89,722
Subtotal Tax Supported Debt	$ 8,817,594	$ 7,835,839
Other Tax-Supported Debt		
Compensated Absences [2]	559,672	559,828
Pension Liability [2]	2,050,195	1,653,718
OPEB Liability [2]	643,837	433,688
Tax Refund Note [2]	60,959	81,278
Pollution Remediation Liability [2]	4,772	4,019
Other Liabilities [2]	24,308	26,041
Subtotal Tax Supported Debt Not Included in Capacity Model	$ 3,343,743	$ 2,758,572
Total Tax-Supported Debt	$ 12,161,337	$ 10,594,411

Source: Department of the Treasury and Department of Accounts

[1] Voter approved

[2] Not Included in Debt Capacity Model

[3] Newport News Industrial Development Authority for Virginia Advanced Shipbuilding & Carrier Integration Center

[4] Fairfax County Economic Development Authority Joint Venture with VDOT for Camp 30 Project

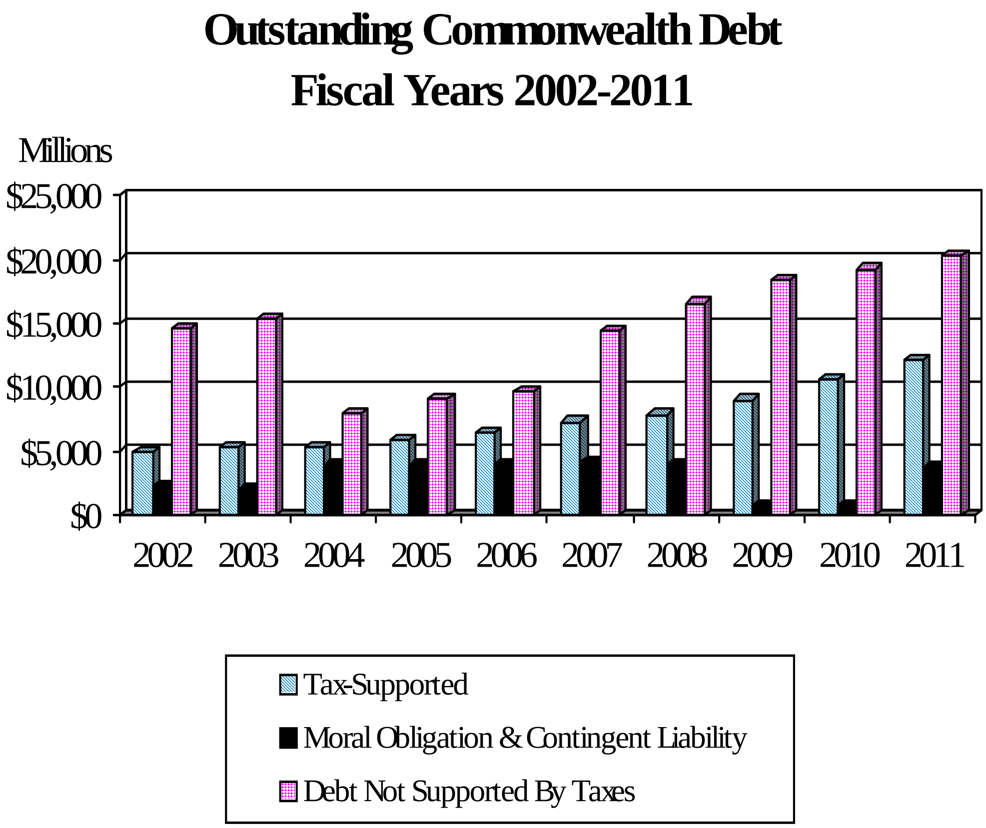
[5] Formally called the Innovative Technology Authority

Debt of the Commonwealth
(Dollars in Thousands)

Debt Not Supported by Taxes [1]		
Moral Obligation / Contingent Liability Debt		
Virginia Resources Authority	684,005	669,839
Virginia Housing Development Authority	0	0
Virginia Public School Authority - 1997 Resolution	2,826,140	2,978,790
Virginia Public School Authority - Equipment Technology Notes	164,790	168,730
Total Moral Obligation/Contingent Liability Debt	$ 3,674,935	$ 3,817,359
Other Debt Not Supported By Taxes		
9(d) Higher Education	1,450,714	1,333,083
Virginia College Building Authority - Pooled Bond Program	1,633,910	1,476,645
Virginia College Building Authority - Private College Program	634,395	524,645
Virginia Public School Authority - Stand Alone Program	151,227	156,292
Virginia Public School Authority - School Tax Credit Bond Program	201,175	61,120
Virginia Housing Development Authority	6,438,200	6,739,603
Virginia Port Authority	284,558	288,764
Hampton Roads Sanitation District	560,996	547,318
Virginia Biotechnology Research Park Authority	1,125	1,355
Virginia Resources Authority	2,060,398	1,915,717
Federal Highway Reimbursement Anticipation Notes	274,650	414,319
Notes Payable	2,403,627	2,034,214
Bond Anticipation Notes	0	0
Other Long-Term Debt	337,683	339,946
Foundations	1,355,777	1,317,122
Pension Liability	34,054	26,379
OPEB Liability	9,099	5,779
Capital Lease Obligations	918	1,407
Compensated Absences	9,044	9,130
Installment Purchase Obligations	0	187
Tuition Benefits Payable	2,215,261	2,095,958
Lottery Prizes Payable	216,408	250,754
Total Other Debt Not Supported By Taxes	$ 23,948,154	$ 23,357,096
Grand Total of Tax Supported Debt and Debt Not Supported By Taxes	**$ 36,109,491**	**$ 33,951,507**

Source: Department of the Treasury and Department of Accounts

[1] Not Included In Debt Capacity Model


Outstanding Commonwealth Debt
Fiscal Years 2002-2011
Millions
$25,000
$20,000
$15,000
$10,000
$5,000
$0
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Tax-Supported
Moral Obligation & Contingent Liability
Debt Not Supported By Taxes

Tax Supported Debt Issued Fiscal Year 2012
Thru December 31, 2011

Issuer	Date Issued	Amount
Virginia Port Authority Commonwealth Port Fund Revenue Bonds Series 2011	July 27, 2011	$ 57,370,000
Virginia College Building Authority, Educational Facilities Revenue Bonds, Series 2011A (21st Century College and Equipment Program)	August 2011	$272,515,000
Virginia Public Building Authority Public Facilities Revenue Bonds, Series 2011A & 2011B	October 2011	$298,500,000
Commonwealth of Virginia General Obligation Bonds 9(c) Series 2011A-1 & 2011A-2	November 2011	$168,875,000

Moral Obligation and Contingent Liability Debt

The Committee also reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability.

Moral Obligation Debt

Moral obligation debt refers to a bond issue structure originally created in the 1960s and utilized primarily by state housing finance agencies or state-administered municipal bond banks as additional credit enhancement for revenue bond issues. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body "may", but is not legally required to, replenish the reserve fund. Rating agencies do not include in tax-supported debt ratios as long as bonds are self-supporting.

The Virginia Resources Authority ("VRA")is the Commonwealth's only remaining moral obligation debt issuer. The VRA issues moral obligation bonds under its programs to provide low-cost financing to localities for water, wastewater, solid waste, storm water, public safety, brownfields remediation, public transportation and airport projects. Due to increased demand for its financing programs, the 2009 General Assembly approved an increase to the Authority's moral obligation debt limit from $900 million to $1.5 billion.

Below are the statutory caps and outstanding amounts:

Issuer	Statutory Cap	Outstanding at June 30, 2011	Available Authorization
Virginia Resources Authority	$1,500,000	$684,004	$815,996
Virginia Housing Development Authority	$1,500,000	$0	$1,500,000
Virginia Public School Authority	$800,000	$0	$800,000
Total	$3,800,000	$684,004	$3,115,996

Alternative financing programs were initiated by the Virginia Housing Development Authority and the Virginia Public School Authority. Neither of these entities expect to issue additional moral obligation debt.

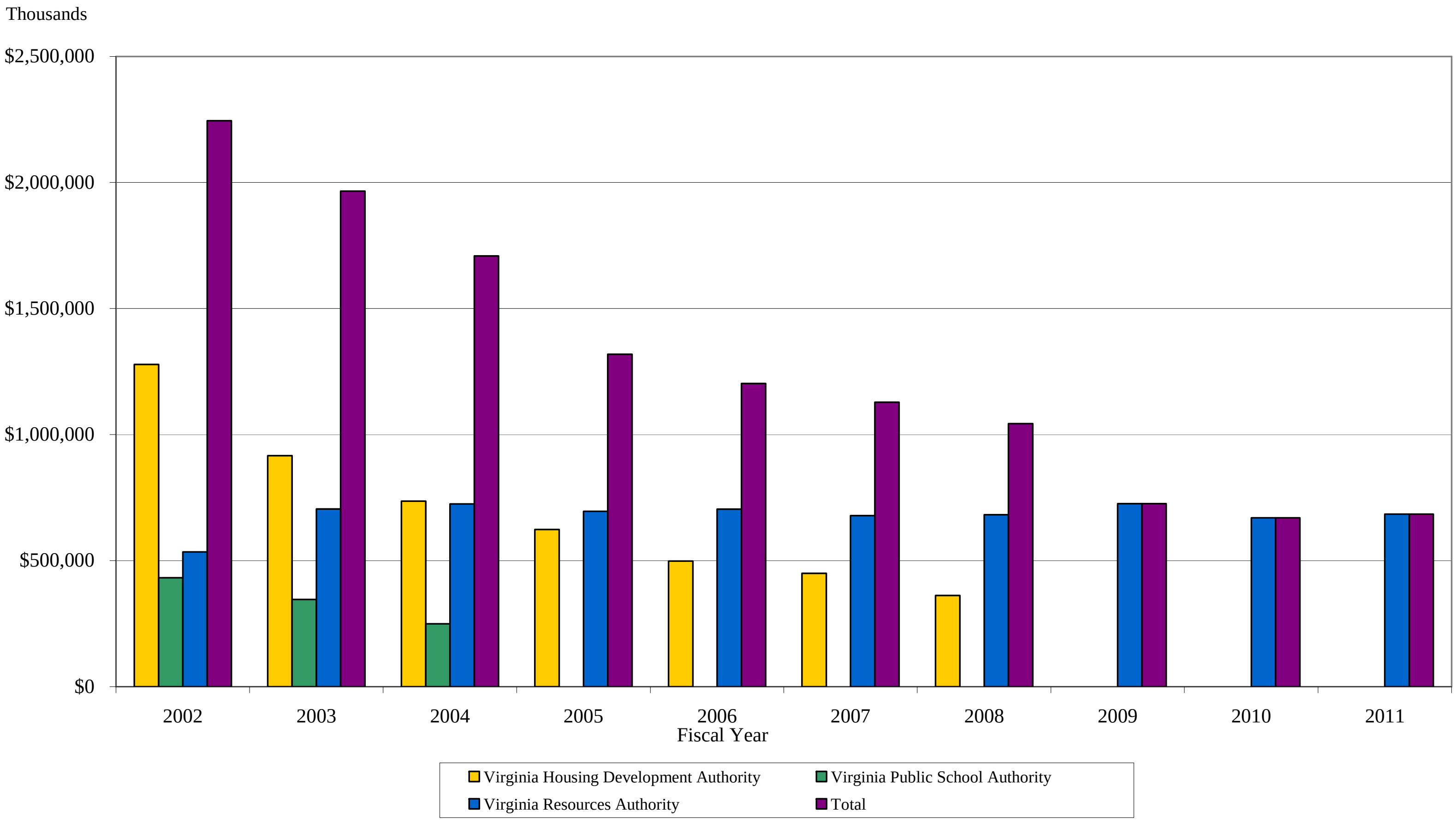
Moral Obligation Debt Sensitivity

Sensitivity analyses are also included which demonstrate the impact on tax-supported debt capacity resulting from the conversion of moral obligation debt to tax-supported debt. The sensitivity analyses are prepared using worst-case scenarios showing the impact of the conversion of all moral obligation debt. However, conversion would only occur if the General Assembly appropriated funds to replenish a debt service reserve fund shortfall upon request by a moral obligation issuer. Further, if any such debt were ever converted, it would be only the amount necessary to cure the default of an underlying revenue stream (e.g., a locality participating in a pooled bond issue).

- The current base Model solution provides for average debt capacity of $466.83 million.

- If the Model solution is altered to assume conversion of the all outstanding moral obligation debt (VRA) as of 6/30/11 to tax-supported debt, the resulting average debt capacity is $409.83 million.

Outstanding Moral Obligation Debt
Fiscal years 2002-2011



Contingent or Limited Liability Debt

The Virginia Public School Authority (VPSA) under its 1997 Resolution, is the only issuer of non-tax-supported debt that utilizes a sum sufficient appropriation ("SSA") as an additional credit enhancement. This represents a contingent liability for the Commonwealth.

- The Virginia Public School Authority had $2.86 billion of 1997 Resolution bonds outstanding as of June 30, 2011.
- The SSA was codified during the 2001 General Assembly session (§22.1-167.3, Code of Virginia) to authorize the use of SSA for certain revenue notes issued by the Virginia Public School Authority under its Educational Technology Program. Notes outstanding as of June 30, 2011 equal $164.8 million.

Sum Sufficient Appropriation Sensitivity

If the Model solution is altered to assume conversion of the VPSA's total outstanding debt secured by a sum sufficient appropriation (as of 6/30/11) to tax-supported debt, the resulting average debt capacity is $217.59 million.