

**DEBT CAPACITY ADVISORY COMMITTEE  
COMMONWEALTH OF VIRGINIA  
December 17, 2008**

3:30 P.M.  
TREASURY BOARD CONFERENCE ROOM  
James Monroe Building  
101 North 14<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Richmond, Virginia 23219

Members Present: Richard D. Brown, Chairman  
William K. Butler, II - Present via Conference Call  
Walter W. Craigie  
Walter J. Kucharski  
Philip A. Leone  
J. Braxton Powell  
Daniel S. Timberlake

Others Present: Evelyn R. Whitley, Department of the Treasury  
Tracy L. Clemons, Sr., Department of the Treasury  
Sherwanda Cawthorn, Department of the Treasury  
David Von Moll, State Comptroller  
Robert S. Young, Department of the Treasury  
Manju Ganeriwala, Secretary of Finance Office  
Janet A. Aylor, Department of the Treasury  
Mary Barnes, Virginia Resources Authority  
Jean Bass, Virginia Resources Authority  
Brian DeProfio, Virginia Resources Authority  
Amy Van, Buren, with Mr. Craigie  
Melissa Palmer, Department of the Treasury  
Richard A. Davis, Department of the Treasury  
Brandy Mikell, Auditor of Public Accounts  
Jeanine Black, Department of the Treasury  
Leslie English, Department of the Treasury  
Debra Greene, Department of the Treasury  
W. E. Echelberger, Jr., Senate Finance Committee  
Tony Maggio, House Appropriations Committee

**Call To Order and Approval of Minutes**

Chairman Brown welcomed members and visitors to the meeting of the Committee and called the meeting to order at 3:40 p.m. He informed the Committee that Mr. Butler was participating by telephone from Vietnam. Mr. Butler expressed thanks for being allowed to participate again from abroad, especially amidst an economic environment where

declining revenues are bound to have an impact on the deliberations and recommendations of the Committee.

Chairman Brown asked if there were any questions or corrections relating to the minutes from the Committee's meeting of February 25, 2008. Hearing none, He requested a motion of approval. Mr. Craigie moved the approval of the minutes, with Mr. Powell seconding the motion and all members voting unanimously to approve.

### **Staff Report on Updated Debt Capacity Model and Draft Report**

Mr. Clemons presented an overview of the updated Debt Capacity Model and assumptions. He reminded the Committee that the Lottery profits were no longer recognized as a transfer to the general fund and the model had been adjusted to reflect that change. He noted the updated interest rate of 4.54%, based on the averaging of the most recent eight quarters of the Bond Buyer 11 index, represented an increase of 20 basis points since the February-2008 model update.

Mr. Clemons explained that due, primarily to the severity of the decline in forecasted revenues over the model period; a level model solution could not be achieved. He further explained that the model had been solved to maximize issuance capacity within the two primary parameters established by the Committee of (a) maintaining debt service as a percentage of blended revenues below 5% and (b) maintaining two years of average capacity beyond the 10 year model period. As a result, \$369.99 million of debt capacity was available through 2012. Due to the 5% limitation, capacity would decline to \$96.24 million in 2013 and rise to \$302.84 million in 2014, with debt service as a percentage of revenue of 4.99% for both of those years. Higher capacity was projected in the out years of the model with \$493.73 available in 2015 and 2016; and, \$781.77 million available in the final 2 years 2017 and 2018. He noted that average capacity over the 10 year model period was computed to be \$406.01, and the model was solved to maintain two years of that average beyond the ten-year model period.

Mr. Craigie raised a question about source of transportation revenue estimates. Chairman Brown explained that the Department of Taxation also provided the forecasts for the Transportation Trust Fund revenues.

Mr. Craigie asked if the \$369.99 million solution would be used in the Committee's recommendation letter. Mr. Clemons acknowledged that, based on the model being solved to maximize capacity within the two established parameters, \$369.99 million would be the expected recommendation for each of the next two years. He reminded the Committee that similar nonlevel solutions had been derived from the model during the economic downturn of the early-to-mid-1990s when the Commonwealth experienced similar declines in forecasted revenues. This recommendation would be consistent with those provided by the Committee under similar circumstances during that period.

After brief discussion of the model solution and recommendation among the members, Mr. Clemons directed the Committee's attention to section C of the report and proceeded with an overview of the Commonwealth's Debt as of June 30, 2008 along with an update of tax-supported debt issued through December, 2008. He continued with a brief discussion of recent debt authorizations and issuance increases in 2007 and 2008 and a review of the issuance assumptions for currently authorized debt. He also walked the Committee through the various sensitivity scenarios, which were presented based on the 10-year average solution, under each scenario. Mr. Clemons concluded with a brief overview of the State debt burden comparisons of Virginia and all of the other AAA/Aaa/AAA states. He highlighted that Virginia's ratios remain in the middle to lower end, compared to the other triple-A states.

### **Discussion of Moral and Contingent Liability Debt**

Mr. Clemons proceeded to the Moral Obligation and Contingent Liability section of the presentation. He reminded the Committee that the Virginia Housing & Development Authority (VHDA) and the Virginia Public School Authority (VPSA) had discontinued the issuance of moral obligation bonds, leaving the Virginia Resources Authority (VRA) as the only remaining active issuer of bonds backed by a moral obligation pledge of the Commonwealth. He explained that due to the recent turmoil in the credit markets and the demise of the bond insurance industry, many local issuers no longer had affordable access to the bond market. This set of circumstances dramatically increased the demand among localities and local issuing authorities to utilize the VRA's highly rated program to obtain financing. Mr. Clemons introduced representatives of the VRA who provided further explanation of their program to the Committee, highlighted by the VRA's plans to seek an increase of their cap from \$900 million to \$1.5 billion during the 2009 General Assembly. They emphasized that the increase would be vital in allowing the VRA to meet the unprecedented increase in demand from local participants not able to access the markets on their own.

Mr. Craigie asked if actual Committee action was required. Ms. Whitley explained that formal action was not required of the Committee, however the review of moral and contingent liability debt was among the Committees statutory duties and acknowledgement of that review was included in the report to the Governor each year. Mr. Kucharski asked if the increase in demand would cause any change in the VRA's review of participant qualifications. The VRA staff emphasized the importance of their review process remaining thorough and assured the Committee that there would be no change in the review process or standards. After brief discussion, Mr. Craigie pointed out that although the VRA sought an increase to its cap, the Commonwealth's overall moral obligation exposure had decreased due to the discontinuation of the moral obligation issuance by the VHDA and VPSA. He noted that VHDA's unused moral obligation capacity would increase as they continued to paydown their outstanding moral obligation bonds. Making this unused capacity available to the VRA could be a possible alternative that VRA or Committee staff could offer if there was hesitancy from the administration or legislature to the cap increase request from VRA.

Mr. Clemons continued with a brief overview of the sensitivity analysis related to any potential conversions of moral obligation debt to tax-supported debt, due to a default. He reminded the Committee that the VPSA was the only issuer under the contingent liability category, with their bonds secured by a sum sufficient pledge of the Literary and General Funds.

### **Discussion of the Final Report to the Governor and General Assembly**

Chairman Brown directed the Committees attention to the draft letter to the Governor and asked staff to walk Committee members through the letter and logistics related its delivery to the Governor and the legislature. Ms. Whitley provided an overview of the letter and exhibits. Mr. Craigie questioned why the letter did not include a quote from the recent Standard and Poor's ratings report. Ms. Whitley explained that the Moody's quote used in the letter seemed to be more appropriate. After a brief discussion among the members, Chairman Brown asked for a motion to accept the letter and report. Mr. Craigie moved to accept the letter and report with certain revisions discussed and agreed upon by the Committee. The motion was seconded by Mr. Leone and unanimously approved by the Committee. (Exhibit 1)

### **Other Business**

Ms. Whitley provided an overview the state ratings and an update on activities related to the rating agencies. She informed the Committee bond rating agencies were considering the implementation of a new ratings scale. She explained that since municipal bonds had historically had a very low default rate, compared to corporate bonds, each of the agencies was looking into revising their scales to reflect the relative risk of municipal bonds to comparably rated corporate bonds. She indicated that staff would continue to monitor these developments, but acknowledged that the unprecedented recent developments in the market may slow or halt this consideration of these changes by the agencies.

Mr. Craigie reminded the Committee of the impending retirement of Treasurer Powell. He requested that the Committee join him in an expression of thanks and gratitude for over 40 years of service to the Commonwealth. Mr. Powell thanked the members of the Committee for their acknowledgement.

Chairman Brown noted that he had requested that staff prepare a chart to illustrate the impact to the model based on the proposed two year authorization recommendation. Staff distributed the chart comparing the model results including the proposed authorization recommendation as compared to historic model solutions (Exhibit 2).

Chairman Brown thanked the members for their participation and contribution. With no further business, the meeting adjourned at 4:29 p.m.

# **Exhibit 1**

**Debt Capacity Advisory Committee**

**Report to the Governor and General Assembly**

**December 17, 2008**

*Please Refer to the 2008 Report located on the VPBA Website.*

## **Exhibit 1**

### **Chart-Historic Debt Capacity Plus 2009 Proposed Authorization**

**December 17, 2008**

*Please refer to the 2008 Report located on the VPBA Website.*