Service Area Plan

Department of the Treasury

Debt Management (72501)

Service Area Background Information

Service Area Description

This service area provides debt issuing and advisory services for the Commonwealth, state authorities, agencies and institutions. The products and services of this service area include:

• Debt financing review and program administration
• Debt program administration, including compliance and continuing disclosure, investor relations, and rating agency relationships.
• Issuance of bonds or other securities
• Monitoring and execution of refunding opportunities
• Lease program administration for equipment and energy project financing for state agencies
• Debt affordability analysis and recommendations to executive and legislative branches
• Staffing services to boards and authorities
• Debt financing and advisory services to state agencies, authorities, boards, commissions and higher education institutions
• School capital financing for local governments and technology grants for DOE/local school divisions
• Technical assistance on the financial aspects of legislative proposals, impact on debt capacity, financial studies and initiatives

Service Area Alignment to Mission

This service area directly aligns with the Department of the Treasury's mission of serving the Commonwealth by providing excellent financial management and customer service.

Service Area Statutory Authority

This service area supports several debt-issuing Boards and Authorities including the Treasury Board, the Virginia Public Building Authority, the Virginia Public School Authority (VPSA), the Virginia College Building Authority (VCBA), the Debt Capacity Advisory Committee, and the Tobacco Settlement Financing Corporation. Title 2.2 of the Code of Virginia outlines the terms and structure for debt issuance as directed by Article X, Section 9 of the Virginia Constitution. Chapter 3 of Title 23 specifically relates to debt structure for the VCBA and Chapter 11 of Title 22 relates to the VPSA. The VPBA's debt structure is defined by Chapter 22, Article 6 of Title 2.2. Title 33.1 governs transportation debt and Title 23-19 addresses higher education projects.

The issuance of taxable and tax-supported debt is federally regulated by the Securities & Exchange Commission (SEC), the Municipal Securities Rulemaking Board and the Internal Revenue Service regarding maintaining the tax-exempt status of bond issues. Additionally, SEC Rule 15c2-12 mandates that municipalities must submit annual financial information to certain securities information repositories and provide notice of certain events material to their bonds or notes.

See Appendix B for additional statutory authority for this service area.

Service Area Customer Base

Customer(s)	Served	Potential
Bondholders		
Business Partners/Interagency	15	15
Governor and Secretary of Finance	2	2
Legislative Branch/money committees	140	140
Local Governments for K-12 Financing Services	134	134
Private institutions of higher education	8	26
State Agencies and institutions of higher education	108	108
Tobacco Indemnification and Community Revitalization Commission	1	1
Virginia Citizens	7,500,000	7,500,000
Virginia Public School Authority, Virginia Public Building Authority, Virginia College Building Authority, the Treasury Board, the Debt Capacity Advisory Committee, and the Tobacco Settlement Financing Corporation	6	6

Anticipated Changes In Service Area Customer Base

• Institutions of higher education gained opportunity for greater autonomy through the Restructured Higher Education Financial and Administrative Operations Act of 2005. The initiative will place greater reliance on the institution's ability to access it's own debt capacity and oversee its debt programs. The institution's continued access to Treasury financing programs must be evaluated and policies developed to protect the integrity and credit quality of the programs. Debt Management will continue to encourage and assist institutions of higher education to develop debt management policies and monitor debt capacity by providing resources like the successful Debt Capacity workshop held in 2005.

Service Area Partners

Banks, Trustees, and Paying Agents

Act as agents for the issuing board in making payments to bondholders and/or protecting the interests of the bondholders

Service Area Partners

Bond Counsel and the Office of the Attorney General

Assist the area in drafting and/or reviewing legislative proposals, bond documents and otherwise ensuring bonds are issued in accordance with applicable law

Service Area Partners

Department of Accounts, Auditor of Public Accounts, Department of Planning and Budget, and other agencies

Provided the financial statements, and financial and demographic information necessary to enable the preparation and filing of primary and secondary disclosure

Service Area Partners

Department of Education

Coordination of K-12 financings for local school districts

Service Area Partners

Department of Planning and Budget

Monitors, projects, and controls expenditures on capital projects funded through Treasury programs

Service Area Partners

Financial Advisors

Perform financial analyses and assist in representing the Commonwealth to investors and rating agencies

Service Area Partners

State Counsel of Higher Education for Virginia

Review of 9(d) feasibility studies and for facilitating the Virginia College Building Authority equipment financing program; review private college financing applications

Service Area Partners

Virginia Department of Transportation

Executing transportation financings

Service Area Products and Services

- Business Partners/Interagency for coordination of efforts, reports, analysis, and data
- Financing review and program administration
- Program administration, including compliance and continuing disclosure, investor relations, and rating agency relationships
- Issuance of bonds or other securities
- Monitoring and execution of refunding opportunities
- Lease program administration for equipment and energy project financing for state agencies
- Debt affordability analysis and recommendations to executive and legislature branches
- Staffing services to boards and authorities
- Financing and advisory services to state agencies, authorities, boards, commissions and higher education institutions
- Review and processing of private activity bond approvals for Secretary of Finance and Governor
- Service to Virginia citizens in obtaining cost-effective financing for tax-supported debt and monitoring for savings opportunities
- School capital financing to local governments and technology grants for DOE/local school divisions
- Technical assistance on the financial aspects of legislative proposals, impact on debt capacity, financial studies and initiatives

Factors Impacting Service Area Products and Services

• Issuance of Tobacco bonds requires the staffing of an additional board (the Tobacco Settlement Financing Corporation), the investment of a separate endowment fund, and necessitates additional monitoring, management, and compliance with requirements (federal, state and administrative) for the bonds and this new entity. The complexity of the structure and the interaction between the Tobacco Settlement Financing Corporation, the Treasury Board and the Tobacco Indemnification and Community Revitalization Commission makes this issue more complex than other programs managed by Treasury.
• Master Settlement Payment reductions – In FY 2006, certain participating manufacturers withheld a portion of their MSA payments pending resolution of a non-participating manufacturer (NPM) adjustment. Although this did not have a significant negative impact on the outstanding Tobacco bonds, it is likely to be an on-going and increasingly significant issue which may require more active administration and disclosure, and may slow the redemption and payment of Tobacco bonds.
• Project financing initiatives using a dedicated revenue stream (i.e., non tax-supported or supported by a particular tax) are increasingly popular. The complexity of these structures makes them more time consuming and administratively burdensome, and results in very specialized financings that cannot utilze existing programs.
• Public Private Partnerships Activity and Alternative Financing Structures – Proposals under the Public-Private Educational Infrastructure Act, Public-Private Transportation Act and alternative financings require resources to evaluate, review and comment on the financing implications.
• Increasing Interest Rates – Economic indicators suggest a rising rate environment for the foreseeable future. This may increase use of variable products and techniques to contain borrowing costs. Higher rates will affect budget projections.
• The volume of capital projects and the need to track the projects in various ways (by program, by project, by authorization, those subject to cap, etc.) may require additional administrative and technical resources.
• The requirements for review and approval of specialized financing (e.g., capital leases, energy financings) are contained in various sources (statutes, budget, etc.), causing confusion on the part of agencies and institutions seeking financing approval.

Anticipated Changes To Service Area Products and Services

• The Restructured Higher Education Financial and Administrative Operations Act passed in 2005. Its affect on a participating institution's access to Treasury-staffed borrowing programs (e.g., Virginia College Building Authority) and the potential impact on the program's credit quality has not been determined. Further analysis and review of policy implications of the legislation are needed, and policies and guidelines will need to be amended to protect the integrity of the current bond programs.
• Variable rate debt and synthetic structures are increasingly popular with issuers and may present opportunities for interest rate savings, flexibility, portfolio diversity, and hedging on interest rate exposure. It has been determined that some level of variable rate exposure would be prudent and cost-effective for the Commonwealth. This will likely increase Treasury's products and services offered.
• Following Treasury Board's adoption of Variable Rate Guidelines, the VCBA, VPBA and VPSA have each adopted a Variable Rate Debt Policy. These policies will be implemented and monitored for compliance as variable rate debt is issued by the authorities.
• An increasing interest rate environment may increase the use of variable rate instruments.
• The Virginia Public Building Authority completed the initial issuance of variable rate bonds in December 2005.
• The Virginia College Building Authority is expected to complete its initial variable rate issue in the summer 2006.
• Improved economy will make it more difficult to attract and retain qualified staff under the current state hierarchy and compensation system, as evidenced by the turnover experienced by this service area during FY2004.
• The complexity of financings (e.g., the use of capital leases, higher education real estate foundation financed debt and other non-traditional borrowing) continues to increase.

Service Area Human Resources Summary

Service Area Human Resources Overview

Human resources for this service area include 11 full-time classified positions. Position titles and reporting structure can be found in Appendix B, Service Area Structure.

Service Area Full-Time Equivalent (FTE) Position Summary

Effective Date: 1/1/2006

Total Authorized Position level	11
Vacant Positions	1
Non-Classified (Filled)	0
Full-Time Classified (Filled)	10
Part-Time Classified (Filled)	0
Faculty (Filled)	0
Wage	0
Contract Employees	0
Total Human Resource Level	**10**

Factors Impacting Service Area Human Resources

• Difficulty in retaining and attracting qualified staff.
• Salary compression making new hires more highly paid than current trained and experienced staff.
• As finance professionals, staff has multiple opportunities for advancement in and outside of state government. Traditional state hierarchy almost guarantees that staff turnover will continue, as advancement cannot occur without vacancies. In the private sector, the problem is addressed by a relatively flat management structure for this type of functional unit.

Anticipated Changes in Service Area Human Resources

• Improved economy may make attracting and retaining qualified staff even more difficult.
• Greater specialization in the industry requires a more specialized knowledge base among staff. These more specialized techniques are not as transferable across program lines.

Service Area Financial Summary

The budget for this service area is comprised of personnel costs funded through general fund and non-general fund appropriations. Non-general fund support is from Virginia Department of Transportation and Virginia Public School Authority.

	Fiscal Year 2007		Fiscal Year 2008	
	General Fund	**Nongeneral Fund**	**General Fund**	**Nongeneral Fund**
Base Budget	$661,148	$203,185	$661,148	$203,185
Changes To Base	$54,283	$32,710	$54,283	$32,710
SERVICE AREA TOTAL	**$715,431**	**$235,895**	**$715,431**	**$235,895**

Service Area Objectives, Measures, and Strategies

Objective 72501.01

To achieve rates on bond transactions equal to or more favorable than market rates on comparable bond issues.

Debt service is a long-term, fixed expense. Obtaining the most favorable rates on fixed-rate, tax-supported debt programs directly benefits the Commonwealth and the taxpayers by saving tax dollars. This objective will benchmark the interest rates achieved against a composite index. This will provide a measure of investor acceptance of the issue structure, as well as investor perception of the financial management of the bond program and the Commonwealth.

This Objective Supports the Following Agency Goals:

- Deliver debt management and issuance services in the most efficient and effective manner while striving to maintain the Commonwealth's high debt ratings.

  (This objective aligns with state objectives to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests and to be recognized as the best managed state in the nation.)

This Objective Has The Following Measure(s):

- **Measure 72501.01.01**

  Yields on tax-exempt bonds

  Measure Type: Outcome **Measure Frequency:** Annually

  Measure Baseline: N/A. This is a new performance measure. Data will be collected going forward on new issues beginning July 1, 2005.

  Measure Target: The average yield variance of fixed-rate, tax-supported bonds issued by boards and authorities staffed by Treasury will be equal to or better than the market proxy used (i.e., Delphis Hanover Scale).

  Measure Source and Calculation:

  Yields on fixed-rate, tax-exempt bonds issued under programs staffed by the service area (i.e., general obligation bonds, bonds issued by the Virginia Public Building Authority, Virginia College Building Authority, and the Virginia Public School Authority) will be benchmarked against the Delphis Hanover scale for the sale date to determine how the Virginia transaction compared to the proxy.

  Following a sale, yields for each maturity will be compared to same day composite yields reported on the Delphis Hanover scale for comparably rated bonds (i.e., AAA to AAA, AA to AA) to determine the variances by maturity. The average basis point variance will be calculated for the issue. This result should be less than or equal to zero (i.e., equal to or better than the proxy). Resulting averages will be averaged for the fiscal year.

Objective 72501.01 Has the Following Strategies:

- Direct financial advisors to include other market comparisons in post-sale report (e.g., to comparable credits, other benchmarks)
- Where issues fail to meet target, attempt to determine what about the issue was not attractive to investors, or what market conditions existed at the time of sale that affected sale results

- Share findings for consideration on next issue and/or take remedial action to address investors concerns
- Monitor expected economic announcement dates (e.g., Federal Open Market Committee) and anticipate impact on sale – plan sales dates accordingly
- Monitor sale dates and times of sales of comparable credits and adjust date and time if necessary
- Relying on guidance from financial advisors, attempt to structure transactions to appeal to investors (e.g., bid parameters, terms vs. serials)
- On negotiated transactions, consider, where appropriate, the use of retail order period
- Allow flexibility in the issuance schedule in case it becomes advisable or necessary to postpone the sale (i.e., avoid letting desperation to drive the sale)
- Keep open communications with rating agencies and investors and where possible, address their concerns