

**DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
August 18, 2020**

2:00 P.M.
ELECTRONIC MEETING VIA GOOGLE MEET

Members Present:

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

Members Absent:

April R. Kees
Anne Oman

Others Present:

David Swynford, Department of the Treasury
Janet A. Aylor, Department of the Treasury
Bradley L. Jones, Department of the Treasury
Joe Flores, Deputy Secretary of Finance
June Jennings, Deputy Secretary of Finance
Tony Maggio, House Appropriations Committee Staff
Sarah Herzog, Senate Finance and Appropriations Committee Staff
Jason Powell, Senate Finance and Appropriations Committee Staff
Grayson Smith, Auditor of Public Accounts Staff
Unidentified Telephonic Participants (6)

Call to Order and Record of Attendance

Chairman Layne called the meeting to order at 2:00 p.m. 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.

A roll call of attendance of the DCAC members was conducted by the Chairman. Members present and absent are identified on page 1 of these minutes. Tony Maggio was in attendance representing House Appropriations Committee and Jason Powell and Sarah Herzog were in attendance representing Senate Finance and Appropriations Committee.

Opening Remarks and Public Comment Period

Chairman Layne noted the DCAC Meeting was being held to review the results of an interim debt capacity model based on the revenue reductions currently being forecasted and in conjunction with the start of a Special Session of the General Assembly to address the reforecast.

Before the model results were reviewed, the Chairman opened the meeting to any public comments. There were no comments.

Review of the August 2020 Interim DCAC Model Results and Inputs

The Chairman asked Mr. Jones to present the meeting materials. (Exhibit 1) Mr. Jones reviewed the Base Model Solution. He stated the model was updated to include actual debt service on all tax-supported debt issuances through June 30, 2020. He noted that VCBA has issued bonds since June 30 and that issuance is included as part of the modeled debt rather than as actual debt service, as is the typical methodology for debt issues occurring after June 30. He explained that the entire authorized and unissued tax-supported debt amount as of June 30, approximately \$6.5 billion, is included in the model. He confirmed that the amount includes the recently authorized debt contained in Chapters 1283 and 1289 of the 2020 General Assembly Session. He noted that the majority of the debt is modeled at a 3.10% interest rate compared to a model rate of 3.44% for the December 2019 model. A rate of 2.02% is currently being used for modeled Higher Education Equipment Trust Fund issuances, which are amortized over seven years. He stated this rate also compares favorably to the 2019 rate of 2.35%. It was noted that the revenues in the model were updated to reflect the reforecast and additional interim planning forecasts were obtained from the Department of Taxation. The resulting capacity was stated to be \$560 million a year with limited to no capacity in the first several years and capacity being derived from the last several years of the model.

Mr. Jones then reviewed the Average Model Solution. He stated the model estimates the five-percent threshold of debt service to blended revenues will be exceeded in FY23 and will remain above the threshold for 6 years through FY28. The maximum ratio was noted to be 5.48% in FY26. This was compared to the December 2019 Average Model Solution, which had resulted in an estimate of the five-percent threshold to only be exceeded in three years, FY23-25 with a maximum ratio of 5.16% in FY24.

It was noted by Mr. Jones that supporting information related to the assumptions is contained following the Average Model Solution. He turned the meeting back over to the Chairman who asked if there were any questions.

Tony Maggio asked Mr. Jones to confirm that the entire amount of tax-supported debt authorizations from the 2020 General Assembly Session were included in the model. Mr. Jones noted that all of the authorizations are included, including the additional Higher Education Equipment Trust Fund amounts and the small amount of additionally authorized jail reimbursements. Mr. Maggio asked Mr. Jones to confirm that the December 2019 model did not include proposed debt, which Mr. Jones confirmed as accurate. A follow-up question was asked by Mr. Maggio regarding what factors resulted in the change in capacity from the December 2019 model to the current interim model and if the authorizations above the capacity recommendation were a contributing cause beyond the revenue decline. Mr. Jones explained the change in capacity is a result of multiple factors, which include the negative reforecast and the authorizations exceeding the recommended capacity. However, it was noted that lower model interest rates are adding capacity to the interim model.

Ron Tillett asked Mr. Jones to restate the interest rates used in the interim model compared to the December 2019 model. Mr. Tillett provided comments regarding the low interest rate environment and that current actual issuance rates are below those used in the model. He noted the market expectation is that rates will be low for an extended period.

Chairman Layne asked Treasurer Ganeriwala if she had any comments regarding recent bond issuances. The Treasurer noted that VPBA and VCBA have both issued bonds since the start of the pandemic and have received low rates. She noted Treasury is currently planning its fall issuance calendar.

The Chairman then asked if anyone had any thoughts or comments regarding projects proceeding given changes to building and facility utilization. Ron Tillett noted that there are strains on revenue streams related to auxiliary projects for some higher education institutions. He noted higher education institutions will take a financial hit due to the pandemic and flexibility for these institutions will be needed.

Chairman Layne thanked the group for the discussion of the model and stated he did not see an official interim recommendation as being necessary.

Other Business

The Chairman asked if there was any other business to be discussed. No members voiced any other business.

With no further business, the Chairman adjourned the meeting at 2:23 p.m.

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