House Appropriations Committee Retreat

Update on Capital Outlay & Debt Capacity

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Update on Capital Outlay & Debt Capacity

- Basis of Commonwealth’s Debt Capacity
- Current Status of Commonwealth Debt Capacity
- Comparative Data
- Capital Outlay History & Actions
- Issues for 2018-2020 Biennium
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Virginia Constitution

- Article X, Section 9 provides for the issuance of debt
  - Sections 9(a), 9(b) & 9(c) provide the Full Faith and Credit of the Commonwealth
- 9 (a) debt is reserved to meet emergencies
- 9 (b) debt is often referred to as general obligation or GO debt and requires voter approval
- 9 (c) debt is for revenue-producing capital projects and is authorized by 2/3 vote of the General Assembly
  - Self-supporting in nature; the Governor is required to certify that pledged revenues are sufficient
  - For example, dorm and dining hall projects
  - Because it has the Full Faith and Credit of the Commonwealth, this debt receives the highest (AAA) rating from the three rating agencies (Moodys, S & P and Fitch)
Virginia Constitution

- Section 9(d)
  - Authorized by the General Assembly
  - Does not provide Full Faith and Credit
    - Rated as AA debt but actual interest rate has been very close to AAA-rated debt in recent years
    - Repaid from both GF and NGF including auxiliary enterprises and local governments
  - Issued by Commonwealth agencies, institutions and authorities. For example,
    - Virginia College Building Authority (VCBA)
    - Virginia Public Building Authority (VPBA)
    - Commonwealth Transportation Board
    - Virginia Housing Development Authority
Debt Limitations

- Constitution sets limits for 9(a), 9(b) and 9(c) debt
- 9(b) GO debt limits:
  - Total 9(b) GO debt is limited to approximately 115% of average annual income tax and sales tax revenues of prior three fiscal years
  - General Assembly can only authorize up to 25% of the total 9(b) GO limit over a four-year period
  - Debt must mature at the lower of either 30 years or useful life of the project
  - Debt payments are structures with level principal
- 9(c) debt is limited to the same 115% of average annual income tax and sales tax revenues of prior three fiscal years
- 9(d) debt technically has no limitations placed on it by the Virginia Constitution
In the early 1990s the Commonwealth developed its current debt policy:

1990: Appropriation Act required development of a plan for the coordination of the Commonwealth’s borrowing
1991: Executive Order 38 established the Debt Capacity Advisory Committee (DCAC)
1994: DCAC statutorily established (Chapter 43, 1994 Acts of Assembly)

The DCAC established the policy of limiting tax-supported debt to 5% of revenues:
- Debt service payments are made or ultimately pledged to be made from general funds
- Corresponds to rating agency definition

In 2010, the DCAC retained the 5% limit but presents capacity using the ten-year average capacity ("smoothing" method):
- Debt capacity was linked with the new six-year capital outlay planning process
- All three rating agencies viewed the changes as a positive debt management practice
Debt Capacity Advisory Committee

Comprised of:
- Secretary of Finance
- State Treasurer
- DPB Director
- Auditor of Public Accounts
- JLARC Director
- Two citizen members appointed by the Governor
- State Comptroller
- Staff Directors for House Appropriations and Senate Finance Committees

Committee annually reviews Commonwealth's tax-supported debt and submits to the Governor and to the General Assembly an advisory, non-binding estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium.
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DCAC Model using the following assumptions over a ten-year planning horizon:

- Actual debt service on all issued tax-supported debt including capital leases and regional jails
- Currently authorized but not yet issued tax-supported debt
- 20-year bonds with level debt service payments except for 9(b) which assumes level principal
- Blended revenues which include general fund, state revenues in the TTF, & ABC profit transfers
  - Official forecasts excluding Lottery funds
  - TTF revenues do not include Highway Maintenance & Operating Funds, Federal grants, or toll revenues
- Interest rates for all GO debt is based on the Bond Buyer 11 Bond Index
  - 9(d) debt assumed at 25 basis points higher
Total outstanding tax-supported debt in the debt capacity model is about $11.3 billion.

Tax-supported debt is where the debt service payment is made or ultimately pledged to be made from general government funds & corresponds to the rating agency definitions.

Source: Debt Capacity Advisory Committee
Debt Authorized but Not Issued

as of December 2016

As of December 2016, there was approximately $5.3 billion in all forms of tax-supported debt authorized but not yet issued

- $3.5 billion in Virginia Public Building Authority (VPBA) & Virginia College Building Authority (VCBA) debt
  - This reflects the significant investment made in the 2016 Session
  - This includes about $169 million of HEETF equipment allocations and project equipment

- About 35% of the debt in pipeline is transportation related
  - $887.3 million in 9(d) transportation bonds
  - $595.7 million for Route 58
  - $24.7 million No. Va. Transportation District Program
  - $350.0 million in VPBA bonds for Port Authority expansion
The chart on the right shows the ten-year debt capacity under the “smoothing” approach adopted by the DCAC.

- Annual debt capacity is about $446 million per year.
- Total debt capacity is $5.4 billion over the ten-year period which includes holding $1.3 billion the total capacity in reserve.
- This assumes all previously authorized debt, including the 2016 Session, as part of the calculation.
- Debt capacity is impacted by changes in revenue and interest rates:
  - $100 million change in revenue per year impacts the debt capacity by about $6.0 million per year.
  - Interest rate changes of 100 basis points can impact the debt capacity by about $60 million.
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Net Tax-Supported Debt as Percent of State Domestic Product

According to the Moody’s 2017 State Debt Medians Report, since 2015, Virginia’s NTSD as percent of State GDP has ranged between about 2.49% and 2.60%

- That places Virginia about 20\textsuperscript{th} in the nation over those three years

The average of all states has ranged between 2.64% and 2.74% over that same period
According to the Moody’s 2017 State Debt Medians Report, Virginia’s NTSD as percent of Personal Income is 2.9% 
- That places Virginia about 20th or 21st in the nation 
- The average of all states is 3.0%

Virginia’s NTSD Per Capita is $1,486 or 19th in the nation 
- The average per capita NTSD is $1,473
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Higher Education Capital Outlay History
2002 to 2018

- Colleges and Universities have spent almost $12 billion from all fund sources for capital projects including capital maintenance reserve since 2002
  - That is an average of $700 million per year
  - Represents about 72% of all capital spending in Virginia
  - General fund & GF-bonds funded about 52% or about $6.2 billion of all higher education capital including maintenance reserve

- E & G projects for new construction, renovation and improvements to instruction, research & admin space comprise about 58% of the total capital spending since 2002
  - General fund & GF-supported bonds funded almost 80% of those projects

- Auxiliary Enterprise projects comprise about 31% of the total capital spending, Capital Maintenance Reserve about 5.4%, Property Acquisitions about 2.7% and Other (primarily UVA Hospital) about 2.4%
Higher Education Capital Outlay History
2002 to 2018

Distribution of GF Capital Outlay By Institution
Rest of State Government Capital Outlay History 2002 to 2018

- The remaining areas of state government have spent about $4.7 billion from all fund sources for capital projects including capital maintenance reserve since 2002
  - This represents about 28% of all capital spending
  - This excludes Highway, Rail & Transit in Transportation

- Projects for new construction, renovation and improvements comprise about 86% of the total capital spending since 2002
  - General fund & GF-supported bonds funded almost 63% of those projects
  - NGF, primarily driven by Port Authority, funded about 26% and Federal funds about 11%

- Capital Maintenance Reserve projects comprise about 8% of the total capital spending and Property Acquisitions about 6%
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**Issues for the 2018-2020 Biennium**
Issues for the 2018-2020 Biennium

- **2016 Capital Program**
  - 21 projects already approved for planning
  - Estimated project values based on previous agency requests total about $800 million from all fund sources
    - Detailed planning and BCOM review will result in a more refined estimate

- **Capital maintenance reserve**
  - Significant deferred maintenance requirements across state government
  - Major building systems are in need of repair and replacement

- **Emergency projects**
  - Mainly building systems related to HVAC, roofs and electrical & mechanical systems such as:
    - DOC heating & mechanical systems at Red Onion & Sussex
    - Life Safety Repairs in DBHDS

- **Project supplements**
  - Evidence of increased pricing in recent bids