

# House Appropriations Committee Retreat

## Update on Capital Outlay & Debt Capacity



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# Update on Capital Outlay & Debt Capacity

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- Basis of Commonwealth's Debt Capacity
- Current Status of Commonwealth Debt Capacity
- 2018 Session Actions
- Future Commitments

# Update on Capital Outlay & Debt Capacity

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- **Basis of Commonwealth's Debt Capacity**
- Current Status of Commonwealth Debt Capacity
- 2018 Session Actions
- Issues for the 2018-2020 Biennium

# Virginia Constitution

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- 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 (Moody's, S & P and Fitch)

# Virginia Constitution

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- 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

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- ❑ 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

# Commonwealth Policy on Debt Capacity

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- 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)
- 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

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- 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



# Update on Capital Outlay & Debt Capacity

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- Basis of Commonwealth's Debt Capacity
- **Current Status of Commonwealth Debt Capacity**
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# Commonwealth Debt Capacity

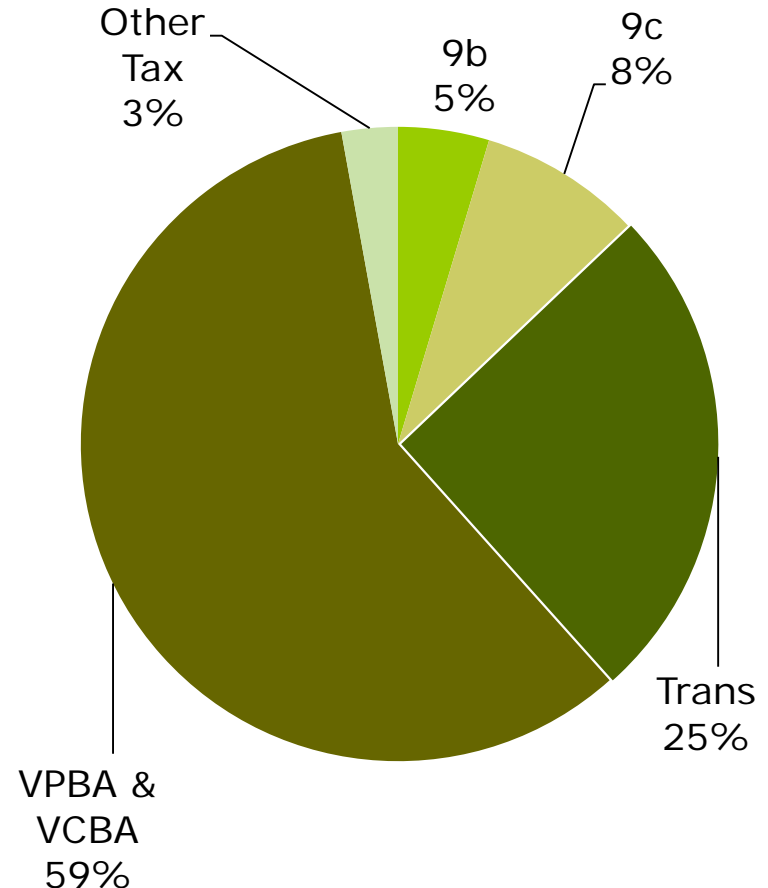
## *DCAC Model*

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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

# Current Outstanding Tax-Supported Debt as of June 30, 2017

- Total outstanding tax-supported debt in the debt capacity model is about \$11.1 billion
  - A \$200 million decrease from June 2016
- 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



# Debt Authorized but Not Issued

## *as of December 2017*

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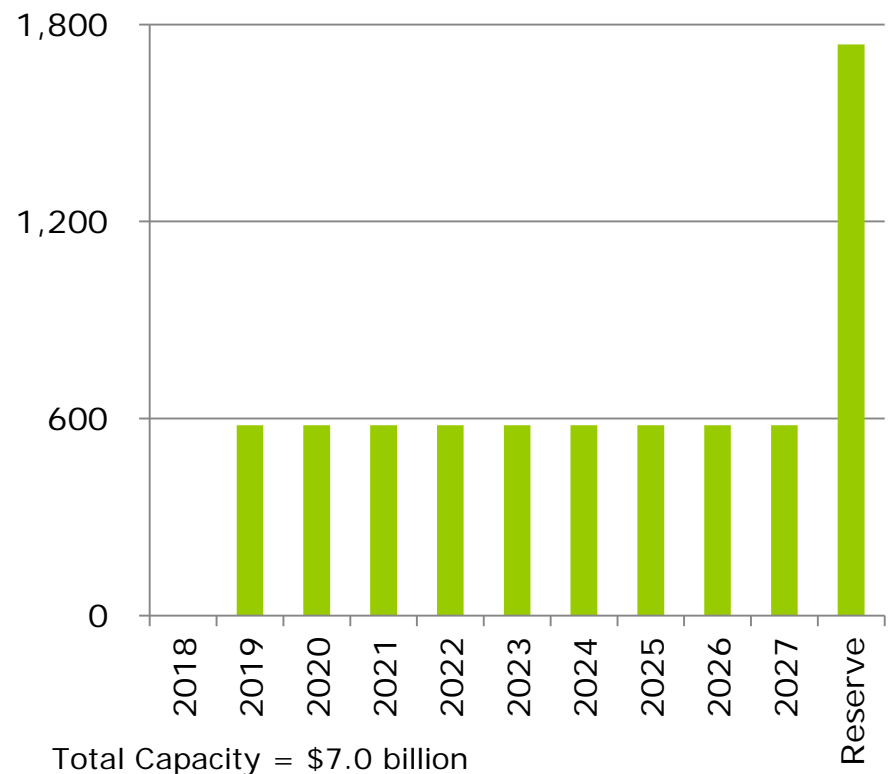
- As of December 2017 there was approximately \$4.9 billion in all forms of tax-supported debt authorized but not yet issued
  - \$3.5 billion in Virginia Public Building Authority (VPBA) & Virginia College Building Authority (VCBA) debt
    - This reflects the significant investment made in the 2016 Session
    - This includes about \$83 million of HEETF equipment allocations and project equipment
  - About 30% of the debt in pipeline is transportation related
    - \$863.9 million in 9(d) transportation bonds
    - \$595.7 million for Route 58

# DCAC Model Results

*December 2017*

- The chart on the right shows the ten-year debt capacity under the "smoothing" approach adopted by the DCAC
- Annual debt capacity is about \$580 million per year
- Total debt capacity is \$7.0 billion over the ten-year period which includes holding \$1.7 billion the total capacity in reserve
- This assumes all previously authorized debt, excluding 2018 Session (Chapter 2), 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 \$6.10 million per year
  - Interest rate changes of 100 basis points can impact the debt capacity by about \$70 million

**Debt Capacity Expressed As Average Annual Amount ("Smoothing")**



# Update on Capital Outlay & Debt Capacity

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- Basis of Commonwealth's Debt Capacity
- Current Status of Commonwealth Debt Capacity
- **2018 Session Actions**
- Future Commitments

# Chapter 2 Capital Outlay

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- The 2018 Session provided for an additional \$1.0 billion in new capital outlay not recognized in the December 2017 DCAC Report
  - The upcoming December 2018 report will incorporate these actions
- The table on the following page summarizes the Chapter 2 actions

# Chapter 2 Capital Outlay Actions

- Chapter includes about \$1.0 billion in new capital outlay
- 2018 Project pool 16 projects including:
  - DMA Aviation Suppt. Fac.
  - SMV Danville Exhibits
  - DGS / ABC Warehouse
  - DGS New NCI Facility
  - DGS Seat of Gov't Repairs
  - VT-Ext Seafood AREC
  - VCU Life Sci. Roof / HVAC
  - IALR Ctr. for Mftg.
  - SWVHEC HVAC Systems

Item	Amount (\$\$ in millions)
Va. Port Authority	\$330.0
Maintenance Rsv.	257.1
2018 Project Pool	216.5
Supplements	90.3
Equipment	60.0
Other Renov. / Infrastructure	48.0
<b>Total</b>	<b>\$1,001.9</b>



# Update on Capital Outlay & Debt Capacity

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- Basis of Commonwealth's Debt Capacity
- Current Status of Commonwealth Debt Capacity
- Comparative Data
- Capital Outlay Actions & History
- **Future Commitments**

# Previously-Approved Project Planning

## *About \$1.5 billion*

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- 2016 Capital Program Planning
  - 21 projects included in the legislation were approved for planning
  - Estimated value based on recent project estimates is about \$925 million from all fund sources
    - This takes into account that two of the projects in this planning queue, the DGS Morson Row Renovation & the DGS Consolidated Labs, were funded as part of the 2018 Project pool
  - Note that the second DJJ facility in Central Virginia planning parameters were refined during the 2018 Session
- Planning Authorized in the 2017 & 2018 Sessions
  - Seven additional projects were authorized for planning
  - Estimated value based on recent project estimates is about \$560 million from all fund sources
    - This takes into account that one of the projects in this planning queue, the DGS / ABC Warehouse, was funded as part of the 2018 Project pool
- Planning projects are listed on the next two slides

# 2016 Capital Program Planning

Agency	Project	Status
DMA	Renovate Roanoke Readiness Center	Planning
DGS	Morson Row Renovation	Funded
DGS	Division of Consolidated Laboratory Services	Funded
State Police	New Division Six Headquarters (Salem)	Planning
CWM	Integrated Science Center 4	Planning
UVA	Alderman Library (Phasing)	Planning
UVA	Renew Physics Building	Planning
VT	Construct Undergraduate Science Laboratory	Planning
VSU	Replace Harris Hall/Daniel Gym	Planning
JMU	Renovate Jackson Hall	Planning
ODU	New Health Sciences Bldg, Ph I	Planning

Agency	Project	Status
VCU	STEM Class Laboratory Bldg	Planning
Richard Bland	Centers for Innovation & Educ. Development	Planning
UVA Wise	Renovate/Convert Wylie Library	Planning
GMU	Improve Network Infrastructure	Planning
VCCS	Replace Diggs/Harrison / Moore Halls, TNCC	Planning
VCCS	Replace French Slaughter Building, Germanna	Planning
VCCS	Construct Advanced Tech Training Center, Piedmont Va	Planning
VCCS	Renovate Amherst/Campbell Hall, Central Va	Planning
VIMS	Replace the Oyster Hatchery	Planning
DJJ	2nd Juvenile Corrections Facility	Planning

# 2017 & 2018 Planning

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## 2017 Session, Chapter 836

Agency	Project	Status
Department of General Services	ABC Warehouse	Funded
Frontier Culture Museum	Construct Crossing Gallery	Planning

## 2018 Session, Chapter 2

Agency	Project	Status
VMI	Phys Training Facility, Phase III	Planning
Longwood	Renovate/Expand Environmental Health & Safety and Facilities Annex Bldg	Planning
NSU	Construct New Science Building	Planning
Radford	Renovate/Construct Center for Adaptive Innovation and Creativity	Planning
DBHDS	Central State Hospital Preplanning Study	Planning

# Statewide Agencies Radio System (STARS)

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- ❑ Authorized VPBA debt in the 2004 & 2006 Sessions to design, construct & implement STARS network
  - Total of \$361.2 million in VPBA bonds were authorized
- ❑ The network included:
  - Backbone microwave network
  - Land mobile radio network
  - Five Tidewater & two Western tunnels
  - Vehicle-based hardware & software for all participants
- ❑ Current request approximately \$132 million primarily to replace all non-infrastructure STARS radios & vehicle-based equipment
  - Current equipment is out of support and lacks supply of any repair parts or replacements
- ❑ Should HAC consider creating an equipment trust fund approach to address this issue?

# Project Cost Overruns

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- ❑ In the 2008 Session, the General Assembly began a more systematic way to address the capital needs of the Commonwealth
  - Six-year capital outlay plans were developed
  - Emphasis on project planning
  - Creation of project pools as opposed to individual project appropriations
- ❑ From 2008 to 2016, project cost inflation was fairly modest and the construction market was very competitive with numerous bidders for projects
- ❑ Since 2016, project cost inflation has increased to about 4.5% & decreasing market competition has resulted in fewer bids on projects
- ❑ The result is cost overruns of \$80 to \$100 million on the projects authorized in the 2016 Session

# 2019 Session

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- Given the \$1.5 billion in previously authorized planning projects, \$132 million for STARS, and \$80 - \$100 million in cost overruns:
  - Limit consideration for new requests to emergency or life safety projects
  - Utilize one-time funding where possible
  - Require any new planning requests to be submitted no earlier than July 2021 for the 2022 Session

# Questions

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