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Review of Commonwealth Debt and Debt Capacity

Briefing for the House Appropriations Committee

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Deputy State Treasurer
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Presentation Outline

- Importance of Maintaining the Commonwealth's AAA Bond Rating
 - Credit Rating Criteria
 - Impact of a Rating Downgrade on Borrowing Costs
 - Triple AAA Rated States
 - Virginia's Tax-Supported Debt Compared to Other States
- Commonwealth Debt Overview
 - Issuers
 - Types of Debt
 - What is Tax-Supported Debt?
 - Tax-Supported Debt Outstanding, Authorized and Issued
- Debt Capacity Advisory Committee (DCAC) and the Debt Capacity Model
 - Background
 - Model
 - Factors Impacting Capacity and the Recommendation

Importance of AAA Bond Rating

- Commonwealth has held a AAA general obligation bond rating from Moody's since 1938, Standard and Poor's since 1962 and Fitch since 1991
- Bond investors willing to accept lower rate of interest for high credit quality
- Demand for credit quality is high
 - Stock market volatility and global markets unrest results in flight to quality
 - Portfolio managers need highly-rated bonds to improve fund profile
- Subject-to-appropriation bonds are rated one notch below the state's General Obligation (G.O.) rating at AA+ (Includes: Virginia College Building Authority [VCBA] 21st Century, Virginia Public Building Authority [VPBA], Commonwealth Transportation Board [CTB])

Credit Rating Criteria

- Primary rating criteria are similar amongst all credit rating agencies, and include:
 - Economy
 - Financial Performance
 - Governance
 - Budget Management
 - **Debt Affordability**
- Each credit rating agency maintains its own unique methodology for assigning final credit ratings to State level issuers, with various subfactors and secondary criteria considered
- An erosion of the Commonwealth's standing in any of the above criteria could lead to a rating downgrade
- **Debt Affordability** is a key factor in maintaining the Commonwealth's credit rating

Potential Impact of Rating Downgrades on Cost of Borrowing

- In the event of a downgrade to Virginia's AAA rating, the Commonwealth would no longer be able to issue its bonds at the lowest interest rates, increasing the borrowing costs for its debt financed capital projects
- What if Virginia were to be downgraded from AAA to AA?*

 - As of October 31, 2025, bond yields on AA rated 20-year municipal bonds ranged from 7 basis points higher on the short-end to 18 basis points higher on the long-end relative to AAA rated bonds
 - For every \$100 million in bonds issued at the lower AA rating, the Commonwealth's debt service would increase by approximately \$1.3 million over the 20-year term

- A downgrade to the Commonwealth's credit rating would also result in downgrades to Virginia's appropriation supported credit ratings and could result in additional downgrades to other debt issuing entities within the Commonwealth
- A downgrade could also have a negative impact on economic development, reducing the Commonwealth's ability to attract and retain businesses

*Analysis prepared by Public Resources Advisory Group. Rates as of October 31, 2025. Detailed analysis is included on Appendix pages A-3 and A-4.



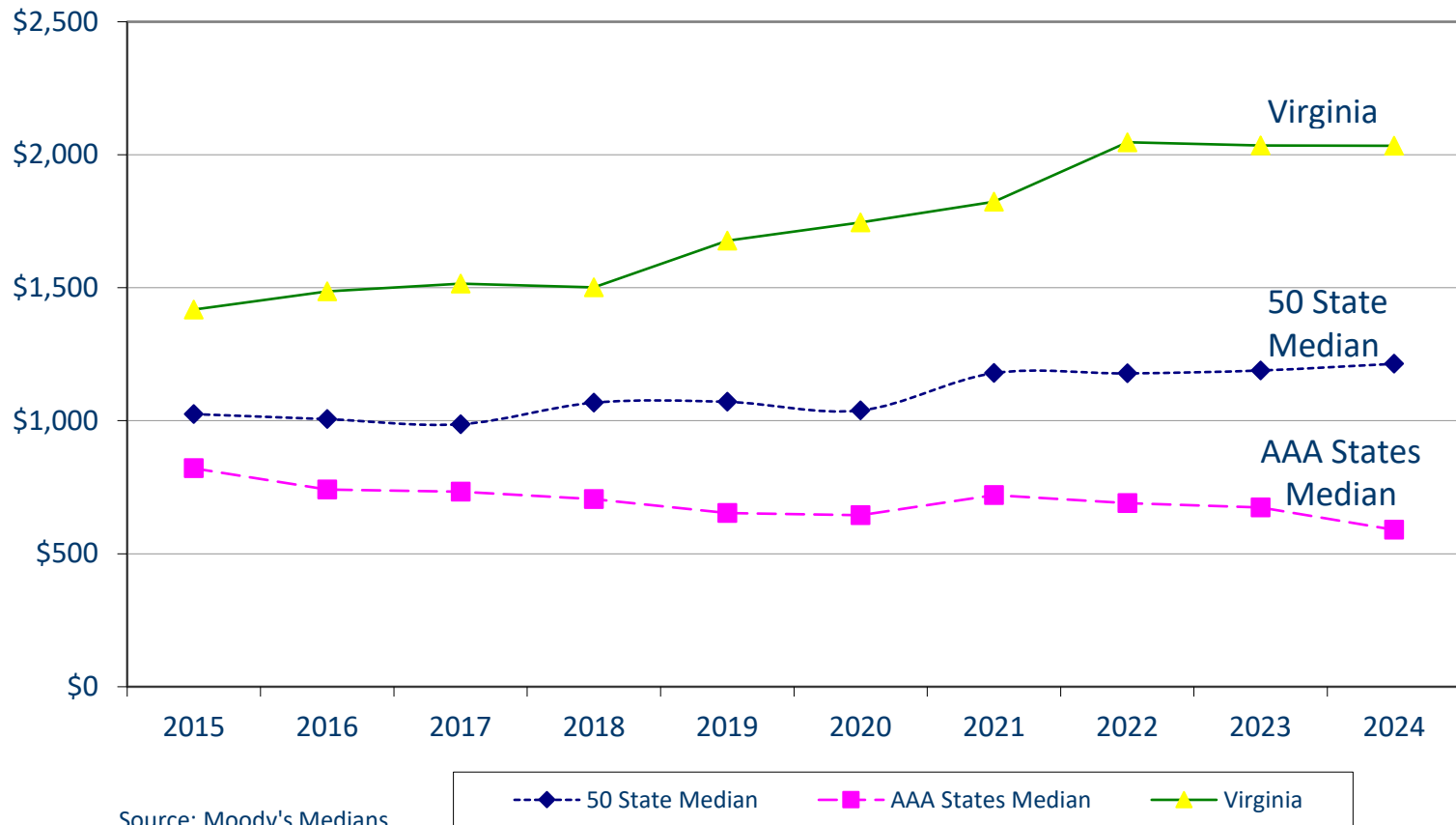
Triple-AAA Rated States

	Moody's		S & P		Fitch	
State	Rating	Outlook	Rating	Outlook	Rating	Outlook
Delaware	Aaa	Stable	AAA	Stable	AAA	Stable
Florida	Aaa	Stable	AAA	Stable	AAA	Stable
Georgia	Aaa	Stable	AAA	Stable	AAA	Stable
Indiana *	Aaa	Stable	AAA	Stable	AAA	Stable
Iowa *	Aaa	Stable	AAA	Stable	AAA	Stable
Minnesota	Aaa	Stable	AAA	Stable	AAA	Stable
Missouri	Aaa	Stable	AAA	Stable	AAA	Stable
North Carolina	Aaa	Stable	AAA	Stable	AAA	Stable
Ohio	Aaa	Stable	AAA	Stable	AAA	Stable
South Dakota *	Aaa	Stable	AAA	Stable	AAA	Stable
Tennessee	Aaa	Stable	AAA	Stable	AAA	Stable
Texas	Aaa	Stable	AAA	Stable	AAA	Stable
Utah	Aaa	Stable	AAA	Stable	AAA	Stable
Virginia	Aaa	Stable	AAA	Stable	AAA	Stable

* Issuer Rating: No GO Debt

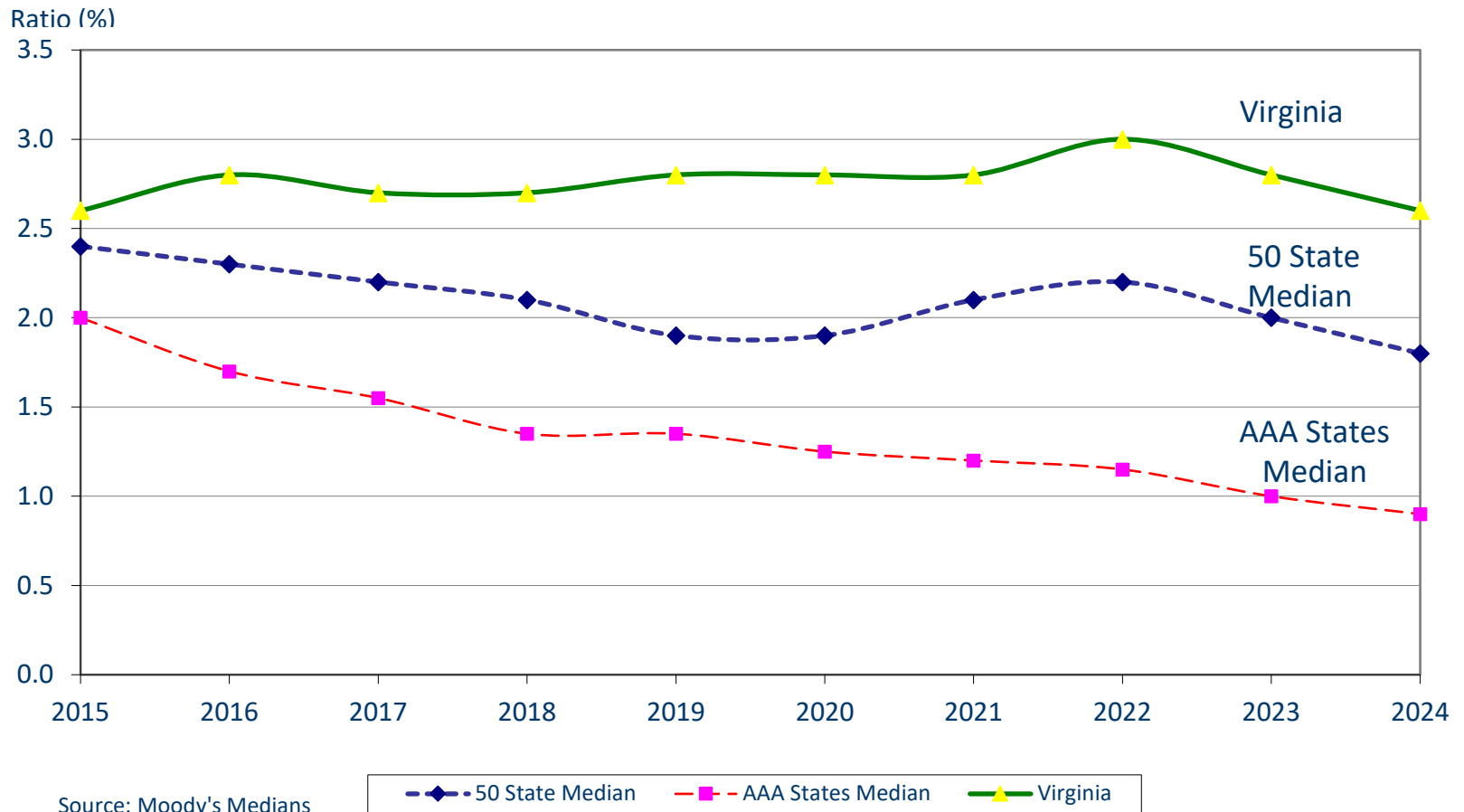
Virginia's Tax-Supported Debt Compared to Other States

Net Tax-Supported Debt Per Capita



Virginia's Tax-Supported Debt Compared to Other States

Net Tax-Supported Debt as Percent of Personal Income



Virginia's Tax-Supported Debt Compared to Other States

- While the Commonwealth's tax-supported debt burden may be greater than both the nationwide and Triple-AAA medians, there are certain mitigating factors that reduce the financial impact of this debt burden
 - Rating agencies cite Virginia's diversified economy, large Federal government presence, well-managed finances, high levels of reserve funds, and sophisticated debt capacity model as positive factors that allow the Commonwealth to support its tax-supported debt levels while maintaining its AAA rating
 - All of the Commonwealth's outstanding tax-supported debt is fixed rate debt which has not been impacted by increasing interest rates. In addition, the Commonwealth issued and/or refunded the majority of its tax-supported debt at historically low interest rates, allowing the Commonwealth to finance needed capital projects at the lowest cost of capital
 - Some Triple-AAA states have obtained their AAA ratings largely because they have very little tax-supported debt, skewing the data points for the Triple-AAA rated states lower

Debt Overview - Issuers

- The following are the primary tax-supported debt issuing boards and authorities:
 - Treasury Board – General Obligation
 - Virginia College Building Authority
 - Virginia Public Building Authority
 - Commonwealth Transportation Board
 - Virginia Port Authority (VPA)
- The following authorities currently issue moral obligation or sum-sufficient appropriation bonds:
 - Virginia Resources Authority (VRA)
 - Virginia Public School Authority (VPSA)

Debt Overview – Framework of Article X of Constitution

Type	Purpose	G.A. Action	Referendum	Security	Issuer
9(a)	Emergencies, Deficits, Redeem Prior Obligations	General Authorization	No	GO	Treasury Board
9(b)	Capital Projects	Specific Project Authorization	Yes	GO	Treasury Board
9(c)	Revenue Producing Capital Projects	2/3 Majority Project Authorization	No	Revenues +GO	Treasury Board
9(d)	Anything Else	General Authorization	No	Revenues/ Appropriations	Agencies Authorities Institutions

Debt Overview – General Obligation 9(b) and 9(c) Debt

- 9(b) General Obligation Debt
 - Requires authorization by General Assembly and approval of voters at a referendum
 - Secured by full faith and credit of the Commonwealth (G.O. Pledge)
 - Paid by general fund revenues
 - AAA/Aaa/AAA ratings provide lowest interest rates
 - Last voter approved referendum 2002
- 9(c) General Obligation Debt
 - Revenue producing projects (eg. dorm, dining and toll roads)
 - Paid by revenues from project, but backed by Commonwealth's G.O. Pledge
 - AAA/Aaa/AAA ratings provide lowest interest rates

Debt Overview - 9(d) Debt

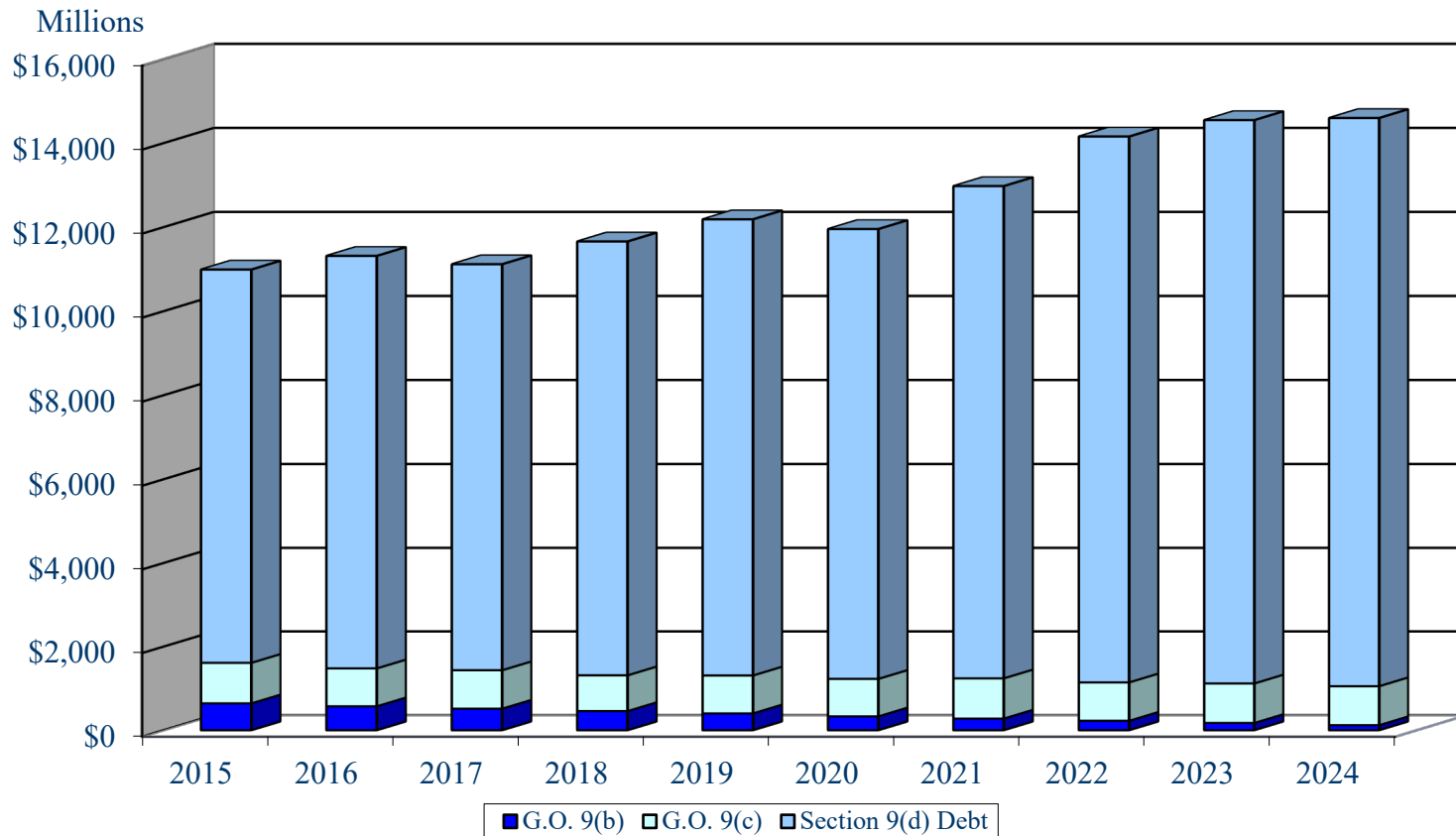
- 9(d) Appropriation-Backed Debt (eg. VCBA 21st Century Program and VPBA)
 - Higher Education & general state projects
 - Secured by appropriations from the general fund
 - Slightly higher interest rates due to appropriation-backed security (AA+/Aa1/AA+ ratings)
- 9(d) Higher Education Debt
 - Eligible for all project types
 - May be issued by institution or through VCBA Pooled Bond Program
 - Secured by general revenues of higher education institution

Debt Overview – What is Tax-Supported Debt?

- Rating Agencies have their own unique methodologies for determining if debt is tax-supported, but maintain a broad definition of tax-supported debt
 - Any debt or liability that is paid, in whole or in part, by tax revenues
 - Typically include all general obligation debt
 - May choose to include or exclude, on a case-by-case basis, any debt for which tax revenues are pledged as a secondary security for the debt
- The debt capacity model considers debt to be tax-supported if debt service payments are made or are pledged to be made from funds derived from **State-wide** tax revenues
 - Excludes GO 9(c) debt that is self-supporting
 - Excludes debt for which tax revenues are pledged as a secondary security or a backstop but are not expected to be used for debt service

Debt Overview – Outstanding Tax-Supported Debt by Category

Fiscal Years 2015-2024¹

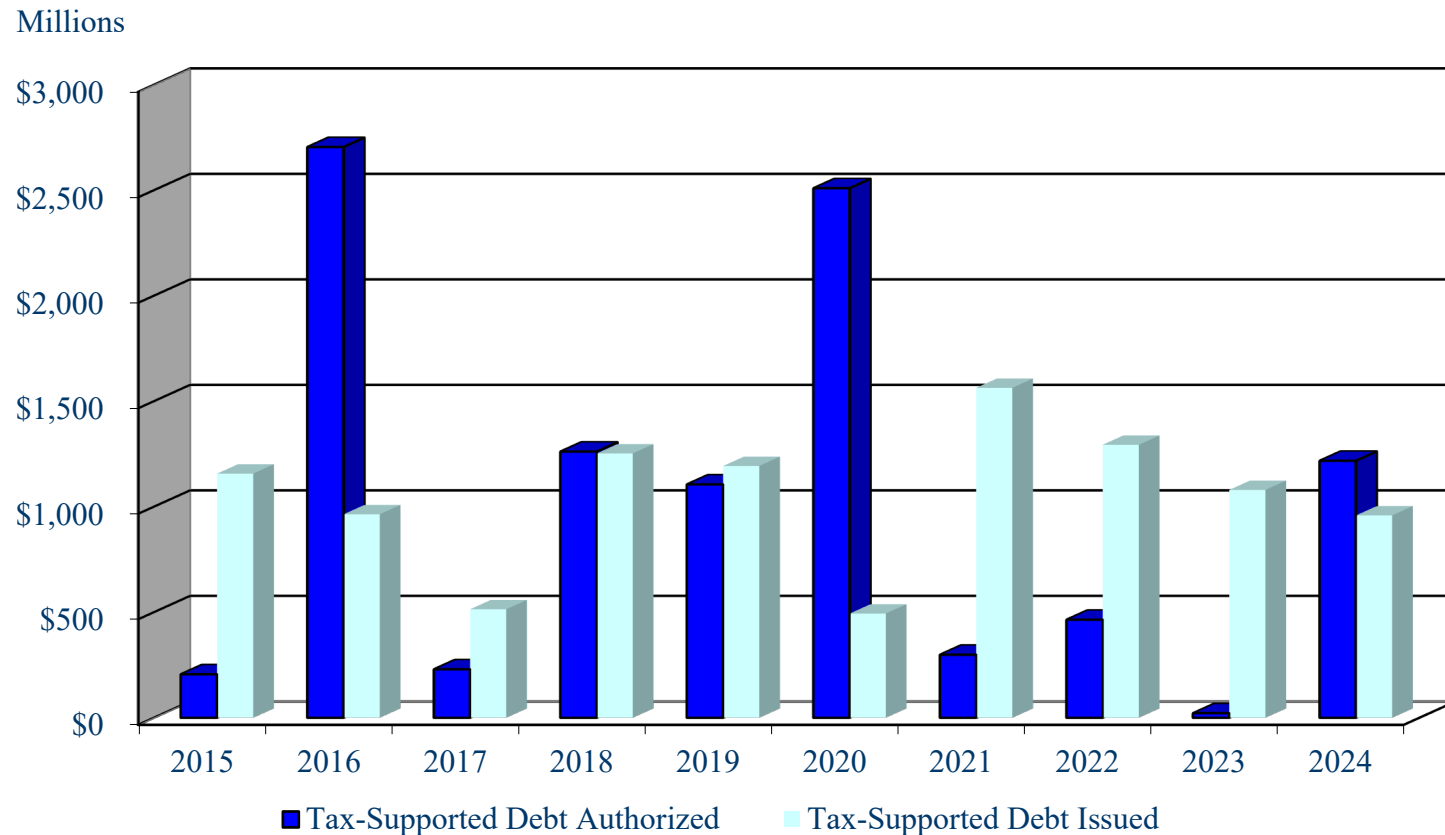


(1) Excludes other long-term obligations such as pension liabilities, OPEBs and compensated absences.

Debt Overview – Tax-Supported Debt Authorizations vs. Issuances

Fiscal Years 2015-2024

\$10.02 Billion in Authorizations vs. \$10.47 Billion in Issuances



Debt Capacity Advisory Committee (DCAC) Background

- The Committee was originally created in September of 1991 by Executive Order and subsequently codified under Chapter 43 of the 1994 Virginia Acts of Assembly, as amended
 - The Committee's general mandate is:
 - Annually review the size and condition of the Commonwealth's tax-supported debt
 - By January 1, submit to the Governor and the General Assembly an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium (Section 2.2-2714 Code of Virginia). This estimate is advisory and in no way binds the Governor or the General Assembly
 - Annually review the amount and condition of moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability
 - Review the amount and condition of Commonwealth obligations that are not general obligations or moral obligations
-

Debt Capacity Advisory Committee Members

- The Honorable Stephen Cummings, Secretary of Finance, Chairman*
- Anne Oman, Staff Director, House Appropriations Committee*
- April Kees, Staff Director, Senate Finance & Appropriations Committee*
- David Richardson, State Treasurer*
- Harold “Hal” Greer, Director, Joint Legislative Audit & Review Commission*
- Michael Maul, Director, Department of Planning and Budget*
- Scott Adams, State Comptroller*
- Staci Henshaw, Auditor of Public Accounts*
- Harold “Chip” Hughey, Citizen Member
- Ronald Tillett, Citizen Member

**Ex-officio*

Importance of Measuring Debt Affordability

- Debt affordability is a key factor assessed by rating agencies
- Attempts to correlate the borrowing for capital needs with the ability to repay
- Issuance above capacity can cause erosion in credit rating
- Most states perform a debt capacity calculation

Debt Capacity Model – Measure and Inputs

- In order to preserve the Commonwealth’s ability to provide core government services, debt service should be limited to an appropriate level
- DCAC adopted the measure that debt service on tax-supported debt should not be greater than 5% of blended revenues
 - Committee has reaffirmed this measure each year
 - Recommendation is expressed in terms of a ten-year average
- Blended revenues include:
 - General Fund Revenues
 - General Fund Transfers – ABC, Sales Tax, Recurring Transfers
 - Virginia Health Care Fund
 - Transportation Trust Fund (TTF)

Debt Capacity Model – Measure and Inputs (Continued)

- Tax-supported debt included in Debt Capacity Model:
 - 9(b) General Obligation
 - 9(d) VCBA (21st Century and Equipment), VPBA, VPA, and CTB debt secured by the TTF
 - Long-term leases, Subscription-based Information Technology Agreements, installment purchases and miscellaneous debt
- Debt not included in Debt Capacity Model:
 - 9(c) General Obligation since payments are to be paid by project revenues
 - Debt/Notes of Institutions of Higher Education supported by General Revenues of the Institution
 - Moral Obligation issued by VRA
 - Sum-Sufficient Appropriation issued by VPSA
 - Grant Anticipation Revenue Vehicles (GARVEES)

Debt Capacity Model – Measure and Inputs (Continued)

- All scheduled debt service on outstanding tax-supported debt is included in the model
- Estimated debt service on authorized but unissued debt is included in model and is based on:
 - Information from agencies
 - Short-term interest rates
 - Long-term interest rates
- The Model Interest Rate is based on the average of the last 12 quarters of the Bond Buyer 11 Index for G.O. debt and 25 bps is added for 9(d) debt
 - In sharply moving rate environments, adjustments are made to reflect those short-term swings

Debt Capacity Model - Currently Authorized & Unissued Debt

As of June 30, 2025*

(Dollars in Millions)

VPBA	\$ 1,254.3
VCBA	\$ 1,005.4
Transportation - CPR	\$ 146.6
Transportation - NVTD	\$ 24.7
Transportation - Route 58	\$ 226.4
Transportation - Special Structures	\$ 1,000.0
Total	\$ 3,657.5

* Preliminary and unaudited

Debt Capacity Model – Factors Affecting Debt Capacity

- Revisions to revenue estimates
 - Driven by economy
 - Policy/Tax changes
- Authorization of additional tax-supported debt
- Changes to issuance assumptions
 - Actual financing dates/terms vs. estimated
 - Revisions to project spending schedules
 - Changes in interest rates

How Does the DCAC Recommendation Impact Authorizations?

- Recommendation is non-binding, but is taken into consideration by the Governor and the General Assembly when developing the budget
- Available debt capacity may constrain the ability to finance capital needs
- Previously authorized projects can be delayed, rescinded, or adjusted to impact the timing and amount of debt service

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Appendix

Description of Types of Debt

Types of State Bonded Debt		Primary Security	Rating (Moody's, S&P, and Fitch)	Typical Purpose	Authorization Required	Debt Capacity	Typical term
General Obligation Bonds							
GO - 9(b)	Voter-approved GO's	GF	Aaa/AAA/AAA	Capital	GA + voters	Yes	20
GO - 9(c)	Project revenues + GO pledge	NGF/Auxiliary, Tolls + GO backstop	Aaa/AAA/AAA	Revenue-producing capital (dorm, dining, parking)	GA + Feasibility	No (1)	20-30
Subject to Appropriation/Revenue Bonds							
VCBA	21st Century Program	GF	Aa1/AA+/AA+	Capital - E&G, Maint Reserve	GA	Yes	20
VCBA	Equipment Trust Fund	GF	Aa1/AA+/AA+	Educational/Research Equipment	GA	Yes	7
VPBA		GF	Aa1/AA+/AA+	Capital - Maint Reserve, regional jails, water quality/ stormwater grants	GA	Yes	20
Other 9(d) Debt							
VCBA	Higher Ed Projects	NGF-General Revenue Pledge + State aid intercept	Aa1/AA/AA+	Capital - Rec/sports facilities, Athletic, Convocation, etc.	GA	No	20-30
College/ University	Higher Ed Projects	NGF-General or specific revenue pledge	Varies	Capital - Rec/sports facilities, dormitories, athletic, Convocation, etc.	GA (except Level 3's)	No	20-30
Long-term leases, support agreements	Foundations, conduit issuers	NGF-General or specific revenue pledge	Varies	Capital - dormitory, multi-use facilities	GA (except Level 3's)	No	20-30

(1) So long as net revenues provide for debt service

Appendix

DCAC's December 2024 Recommendation

- Up to an additional \$1.31 billion could prudently be authorized and issued during each of fiscal years 2025 and 2026
- Committee noted the Commonwealth's fiscal strength entering 2025 but urged the Governor and General Assembly to consider the impacts that an economic downturn could have on the Commonwealth's revenues and overall fiscal condition
 - Material changes to the Commonwealth revenues or prevailing interest rates will impact the Commonwealth's debt capacity
- Committee urged the Governor and the General Assembly to continue to use caution when considering future tax-supported debt authorizations
 - Virginia's debt burden has increased significantly over the last 10 years
 - \$2.6 billion in authorized but unissued tax-supported debt
 - Rising construction costs and higher interest rates may require additional funding for previously authorized capital projects

Appendix

AAA vs AA Spreads

Commonwealth of Virginia
General Obligation Bonds
Scales - Tax-Exempt
Rates as of October 31, 2025

Appendix

AAA vs AA Debt Service - \$100 million – 20 Years

	General Obligation (Aaa/AAA/AAA)	Double-A Rated Bonds (Aa/AA/AA)	Difference
Sources			
Par	89,030,000.00	89,845,000.00	
Premium	11,629,154.20	10,818,530.85	
Total Sources	100,659,154.20	100,663,530.85	
Uses			
Project Fund	100,000,000.00	100,000,000.00	
Cost of Issuance	303,034.20	304,150.85	
Underwriter's Discount	356,120.00	359,380.00	
Total Uses	100,659,154.20	100,663,530.85	
TIC	3.6436%	3.7446%	0.10%
All-in TIC	3.6768%	3.7779%	0.10%
Annual Debt Service			
2027	7,146,500	7,207,250	60,750
2028	7,141,750	7,211,500	69,750
2029	7,145,500	7,208,750	63,250
2030	7,142,000	7,209,000	67,000
2031	7,146,250	7,211,750	65,500
2032	7,142,500	7,211,500	69,000
2033	7,145,750	7,208,000	62,250
2034	7,145,250	7,211,000	65,750
2035	7,145,750	7,209,750	64,000
2036	7,141,750	7,209,000	67,250
2037	7,143,000	7,208,250	65,250
2038	7,143,750	7,207,000	63,250
2039	7,143,500	7,209,750	66,250
2040	7,141,750	7,210,750	69,000
2041	7,143,000	7,209,500	66,500
2042	7,146,500	7,210,500	64,000
2043	7,141,500	7,208,000	66,500
2044	7,142,750	7,206,500	63,750
2045	7,144,250	7,210,250	66,000
2046	7,145,250	7,208,250	63,000
Total	142,878,250	144,186,250	1,308,000
PV DS @ G.O. All-in TIC	100,003,034	100,918,546	915,512