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# **Review of Commonwealth Debt and Debt Capacity**

**A Briefing for the Senate Finance & Appropriations  
Capital Outlay Subcommittee**

David Richardson  
State Treasurer  
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## Importance of AAA Bond Rating

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- 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

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- Primary rating criteria are similar amongst all three 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

# Potential Impact of Rating Downgrades on Cost of Borrowing

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- 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

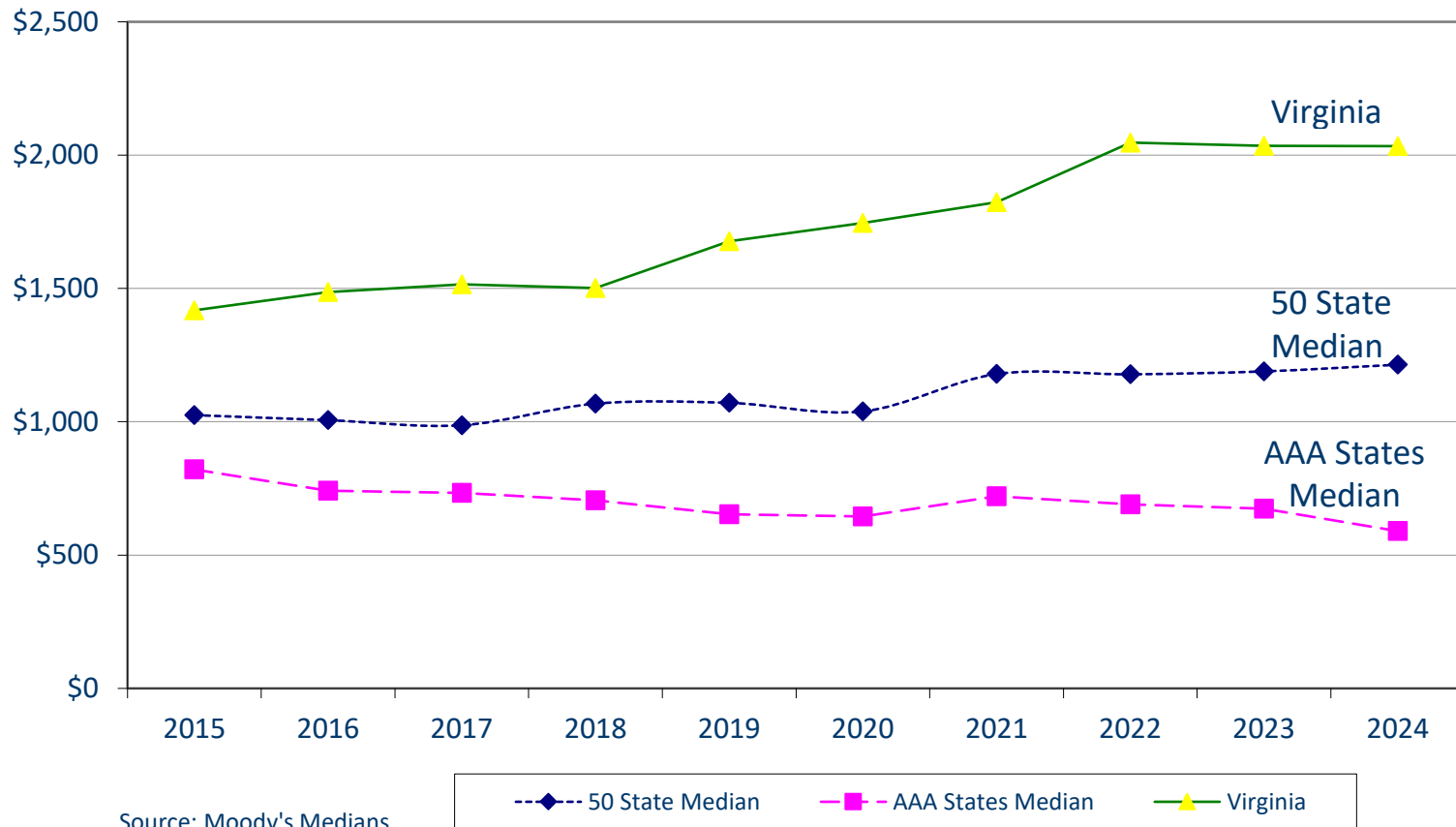
- A downgrade to the Commonwealth's credit rating would also result in downgrades to Virginia's appropriation supported credit ratings and could result in additional downgrades to other debt issuing entities within the Commonwealth
- A downgrade could also have a negative impact on economic development,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

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\*Analysis prepared by Public Resources Advisory Group. Rates as of October 31, 2025.

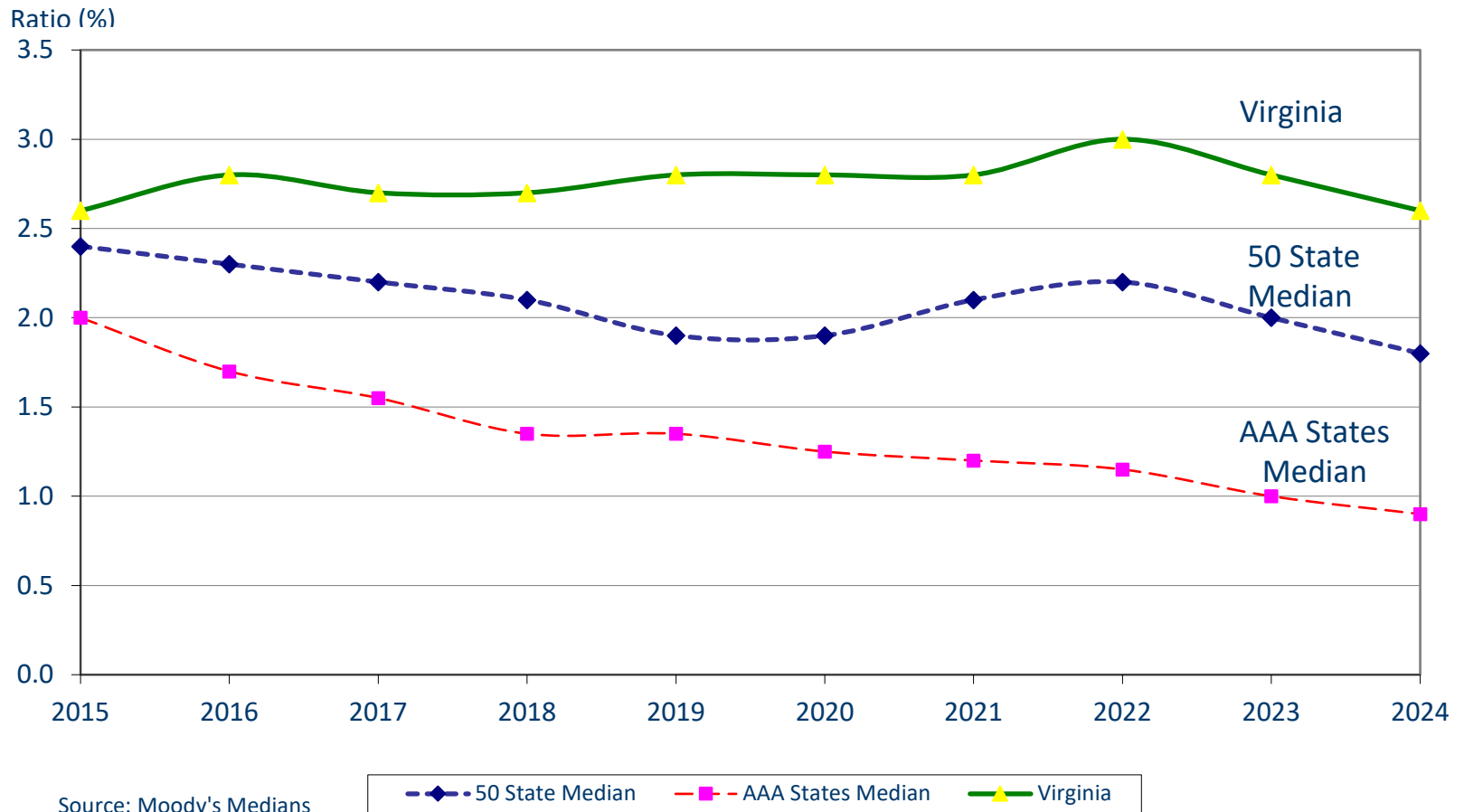
# Virginia's Tax-Supported Debt Compared to Other States

## Net Tax-Supported Debt Per Capita



# Virginia's Tax-Supported Debt Compared to Other States

## Net Tax-Supported Debt as Percent of Personal Income



## Debt Overview - Issuers

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- The following are the primary tax-supported debt issuing boards and authorities:
  - Treasury Board – General Obligation (GO)
  - Virginia College Building Authority (VCBA)
  - Virginia Public Building Authority (VPBA)
  - Commonwealth Transportation Board (CTB)
  - 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 – 9(b) and 9(c) Debt

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- 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 back-stopped by Commonwealth's G.O. Pledge
  - AAA/Aaa/AAA ratings provide lowest interest rates



## Debt Overview - 9(d) Debt

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- 9(d) Appropriation-Backed Debt (eg. VCBA 21<sup>st</sup> 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 – Framework of Article X of Constitution

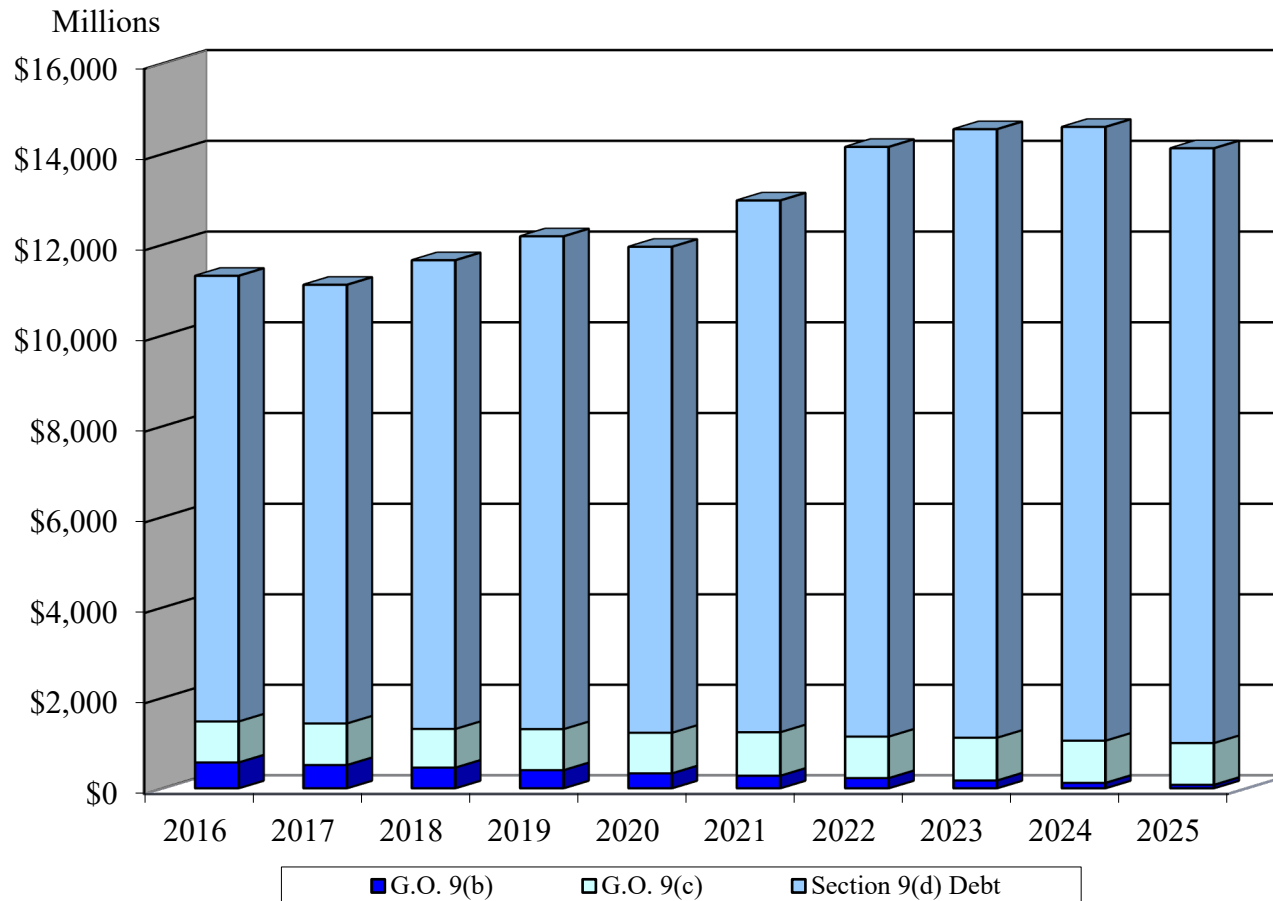
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Type	Purpose	G.A. Action	Referendum	Security	Issuer
9(a)	Emergencies, Deficits, Redeem Prior Obligations	General Authorization	No	GO	Treasury Board
9(b)	Capital Projects	Specific Project Authorization	Yes	GO	Treasury Board
9(c)	Revenue Producing Capital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

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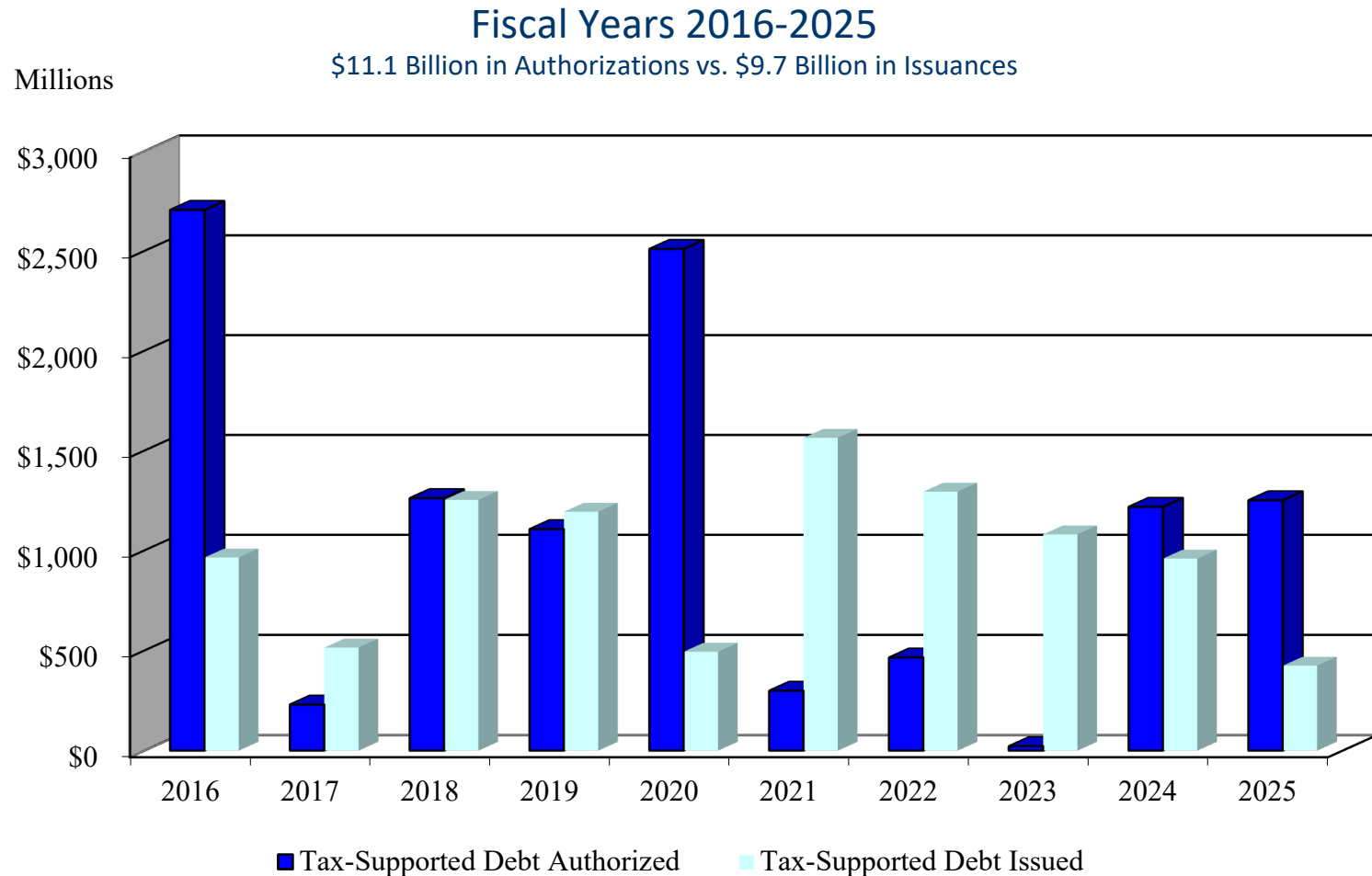
# Debt Overview – Outstanding Tax-Supported Debt by Category

Fiscal Years 2016-2025<sup>1</sup>



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

# Debt Overview – Tax-Supported Debt Authorizations vs. Issuances



# Debt Capacity Advisory Committee (DCAC) Background

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- The Committee's general mandate is:
  - Annually review the size and condition of the Commonwealth's tax-supported debt
  - Submit to the Governor and the General Assembly before January 1, 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

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- Secretary of Finance, Chairman\*
- Staff Director, House Appropriations Committee\*
- Staff Director, Senate Finance & Appropriations Committee\*
- State Treasurer\*
- Director, Department of Planning and Budget\*
- State Comptroller\*
- Auditor of Public Accounts\*
- Director, Joint Legislative Audit & Review Commission\*
- Citizen Member – Harold “Chip” Hughey
- Citizen Member – Ronald Tillett

*\*Ex-officio*

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# Debt Capacity Model – Measure and Inputs

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- 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) Revenues and certain Commonwealth Transportation Fund Revenues related to the Route 58 Program and the Special Structures Program

## Debt Capacity Model – Measure and Inputs (Continued)

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- Tax-supported debt included in Debt Capacity Model:
  - 9(b) General Obligation
  - 9(d) VCBA (21<sup>st</sup> Century and Equipment), VPBA, VPA, and CTB debt secured by the TTF
  - Certain leases and subscription-based IT arrangements, installment purchases and miscellaneous debt
- Debt not included in Debt Capacity Model:
  - 9(c) G.O. 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)

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- 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 with 25 bps added for 9(d) debt
    - Model interest rates for December 2025 Report were 4.01% for GO and 4.26% for 9(d)
  - Debt service on proposed new debt in Governor's Budget is NOT included in the model
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## Debt Capacity Model - Currently Authorized & Unissued Debt

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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	<u>\$ 1,000.0</u>
<b>Total</b>	<b>\$ 3,657.5</b>

## Committee's December 2025 Recommendation

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- Up to an additional \$1.49 billion could prudently be authorized and issued during each of fiscal years 2026 and 2027
- Committee noted the Commonwealth's fiscal strength entering 2026, but also noted that material changes to the Commonwealth's revenues or prevailing interest rates could 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
  - Nearly \$3.7 billion in authorized but unissued tax-supported debt included in DCAC model
  - Rising construction costs may require additional funding for previously authorized capital projects
- Committee recognized that transportation debt service as a percentage of transportation revenues continues to greatly exceed 5%
  - Excess capacity generated by general fund is being utilized by transportation projects
  - Transportation debt service projected to continue to be close to 10% of transportation revenues

# Debt Capacity Model – Factors Affecting Debt Capacity

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- Revisions to revenue estimates
  - Driven by economy
  - Policy 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?

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- 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

## Introduced 2026-2028 Budget and Pending Legislation

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- Approximately \$1.31 billion of proposed new tax-supported debt is included in the proposed 2026-2028 biennium budget
  - \$1.11 billion of VCBA/VPBA appropriation-supported bond authorization for 2026 capital project pool
  - \$195.30 million of VCBA higher-education equipment trust fund bond authorization
- In addition, recently filed HB 147 would authorize an additional \$332 million in tax-supported debt for Route 58 to be issued by the Commonwealth Transportation Board, bringing the aggregate amount of tax-supported debt already under consideration to a total of \$1.642 billion

## Debt Capacity Staff Contacts

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