Commonwealth of Virginia

Debt Capacity Advisory Committee

Report to the Governor and General Assembly

December 20, 2004

COMMONWEALTH of VIRGINIA

Office of the Governor

John M. Bennett
Secretary of Finance

P. O. Box 1475
Richmond, Virginia 23218

December 20, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol, 3rd Floor
Richmond, Virginia 23219

The Honorable Bruce F. Jamerson
Clerk of the House of Delegates
Virginia House of Delegates
State Capitol
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar
Clerk of the Senate
Senate of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Warner, Mr. Jamerson, and Ms. Schaar:

The Debt Capacity Advisory Committee (the "Committee") is required to annually review the size and condition of the Commonwealth's tax-supported debt and submit to you an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next two years. In addition, the Committee is required to review annually the Commonwealth's moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. We are pleased to present our annual report.

The Debt Capacity Model

In this report, we reaffirm our use of the Debt Capacity Model as the means of calculating the Commonwealth's tax-supported debt affordability. The Model calculates the maximum amount of incremental debt that may prudently be issued by the Commonwealth over the next ten years and features an additional two years of debt issuance capacity as a reserve beyond the end of the ten-year issuance period. The reserve is used as a hedge against variations in other assumptions used in the Model, such as interest rates and revenue growth. The Model uses the ratio of tax-supported debt service as a percentage of revenues as its base calculation. The ratio of debt service as a percentage of revenues should be no greater than 5%. In our view, 5% is the

5% is the maximum ratio consistent with maintaining the premier credit ratings on the Commonwealth's debt. The Model incorporates the official revenue estimates contained in the Governor's proposed budget submitted December 17, 2004. The Debt Capacity Model is attached as
Exhibit A.

The concept of debt capacity management and the 5% maximum ratio were introduced in *An Assessment of Debt Management in Virginia*, a report issued by the Secretary of Finance in December 1990. The Debt Capacity Advisory Committee adopted the 5% maximum measure in 1991 and has fully endorsed this ratio every year since that time. The credit ratings assigned to the Commonwealth's obligations are, in part, based upon its sound debt management policies. Moody's Investors Service, in a report issued this spring that removed the Commonwealth from its ratings downgrade watchlist and affirmed the Commonwealth's Aaa rating, specifically referenced the Commonwealth's conservative policies, as follows:

> "...Virginia's Aaa general obligation bond rating is based primarily on three factors: Improving revenues brought on by a recovering economy; a budget and tax reform package that restrains spending growth and provides significant new sources of recurring revenue; and a cap on the state's liability for phasing out the annual personal property tax on automobiles. These measures will restore the state's structural budget balance and return its fiscal practices to a course consistent with its long tradition of conservative financial management." *(Moody's Investors Service, Inc., Rating Update, May 27, 2004)*

Moral Obligation or Contingent Liability Debt and Other Findings

The Committee also reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reviewed the types of programs, statutory caps, outstanding amounts, and other financial data for the three issuers that currently have debt outstanding that is backed by the Commonwealth's moral obligation pledge. The three issuers are the Virginia Housing Development Authority, the Virginia Public School Authority and the Virginia Resources Authority. Each of these issuers' outstanding moral obligation debt is currently within its statutory limit.

The Virginia Public School Authority initiated a new primary issuance program in 1997 and does not expect to issue additional moral obligation bonds. The Virginia Housing Development Authority established a new multi-family housing program in 1999 that does not carry the Commonwealth's moral obligation pledge and it expects to issue all of its multi-family housing bonds under that program.

The Virginia Public School Authority is the only issuer of non-tax-supported debt that utilizes a sum sufficient appropriation as an additional credit enhancement. This represents a contingent liability for the Commonwealth. The Virginia Public School Authority issued its first series of Equipment Technology Notes utilizing the sum-sufficient appropriation in 2001, receiving a "double A plus" rating from each of the three major rating agencies.

The Virginia Resources Authority has an authorization to issue up to $900 million of moral obligation debt. The Authority issues moral obligation bonds under its programs to provide low-cost financing to localities for water, wastewater, solid waste, storm water, public safety, brownfields remediation and airport projects.

Information on the amount of outstanding debt, statutory limits and debt ratings for moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability is shown in Exhibit D. Sensitivity analyses are also included which demonstrate the impact on tax-supported debt capacity resulting from the conversion of moral obligation debt to tax-supported debt. The sensitivity analyses are prepared using worst-case scenarios showing the impact of the conversion of all moral obligation debt. If any such debt were ever converted, however, it would occur on an issue-by-issue basis. Conversion would occur if the General Assembly appropriated funds to replenish a debt service reserve fund shortfall if requested by a moral obligation issuer. For example, an issuer would request that the Governor and General Assembly replenish the debt service reserve fund if, in the event of a default on the underlying revenue stream, the issuer was forced to draw on the debt service reserve fund to pay debt service.

The Committee also reviewed the current and historical debt position of the Commonwealth. Part of this review included other authority debt not supported by taxes. Data included in Exhibit C summarizes information considered by the Committee.

Recommendations

Historically, Virginia has followed a capital budgeting and approval process in which projects and the financing thereof have been approved during the even-year General Assembly Session during which a new biennial budget is adopted. The budget is amended, if necessary, during the odd- or second year. The Committee therefore has provided the following amounts for the current biennium since this report coincides with the 2005 General Assembly Session during which amendments to the 2004-2006 budget biennium will be considered.

The Committee notes that the period of time between the inception of capital projects and its permanent financing can vary greatly, usually spanning several years. Therefore the Committee has determined that consideration should be given to the projected issuance schedule when making its recommendations.

1. Model Results – Tax-Supported Debt Authorization

The Committee believes that based upon the Debt Capacity Model and the Governor's Official Revenue Forecast of December 17, 2004:

- A maximum of $690.58 million of tax-supported debt could prudently be authorized by the 2005 Session of the General Assembly; and

- A maximum of $690.58 million of tax-supported debt could prudently be authorized by the 2006 Session of the General Assembly.

This maximum amount of authorization is above and beyond the tax-supported debt that is currently authorized but unissued. The increase in debt issuance capacity from the amounts recommended in the 2003 Report is mainly attributable to reduced interest rates, continued efforts by the Commonwealth to refinance debt at lower interest rates and additional revenue in the December 2004 revenue forecast.

The Model results are sensitive to changes in interest rates and revenues. Specifically, a one percent change in general fund revenues in each and every year of the Model solution horizon will change the amount of annual debt capacity by approximately $11.73 million. A change in general fund revenues of $100 million in each and every year of the Model solution horizon will produce approximately $6.33 million of incremental annual debt capacity change. More detail on the Model's sensitivity to changes in interest rates and revenues can be found in Exhibit B.

The Committee notes that the average interest rates used in the Debt Capacity Model have decreased by approximately 20 basis points since the December 2003 Report. The Bond Buyer 11 Index is the benchmark index used in the Model. The Model uses the average of the Bond Buyer 11 Index for the last eight quarters as its base interest rate for authorized but unissued general obligation bonds and adds an additional fifty basis points for non-general obligation bonds. The Committee notes that the effect of interest rate movements over any one year is mitigated since the base rate is an average of the last eight quarters.

The Committee recognizes that it cannot predict the future level of interest rates or the pace of revenue growth and recognizes the sensitivity of the Model results to such factors. Attached as Exhibit B are sensitivity analyses that demonstrate the impact on the Model of changes in external factors such as interest rates and revenues, or internal factors such as excess capacity. The Model calculates the maximum amount of tax-supported debt that could be prudently authorized and issued based on the assumptions incorporated in the Model. It does not constitute a recommendation of the

Committee that such amount actually be authorized. In the opinion of the Committee, debt issuance in excess of the recommended amounts could result in the Commonwealth exceeding the maximum ratio of 5%. See Exhibit C for further narrative.

The Committee makes no recommendations as to which projects, if any, should be chosen for debt financing or how they should be prioritized. These decisions are most appropriately made through the budgetary and legislative processes.

2. Consider Eliminating Authorizations Not Likely to be Issued:

The Committee endorses the efforts of the General Assembly and the Governor to continue to rescind authorizations for projects that are not likely to be used. The Committee recommends that unnecessary authorizations continue to be identified and rescinded, as appropriate.

3. Alternative Financing of State Projects:

We continue to support the use of traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority for financing state projects as opposed to capital lease-supported transactions. Certain state projects have been financed in the past using local and special purpose authorities, such as industrial development authorities or redevelopment and regional housing authorities. Due to the structure of such financings, they often result in higher financing costs than if the financing had been completed through an established state program. In such cases, the Commonwealth has limited control of the process, however such bonds are normally considered tax-supported debt and are included in the Model because the Commonwealth is responsible for debt service payments over the life of the bonds.

4. Moral Obligation and Contingent Liability Debt:

We make no specific recommendation on the programs or levels of the statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

Conclusion

We trust this report and our recommendations are useful as we move forward together into the 2005 Session of the General Assembly. It has been our pleasure to advise you on including the concepts of debt affordability and debt capacity management into the Commonwealth's debt management programs. The Commonwealth of Virginia has become an acknowledged leader among states in the area of debt capacity management, and is repeatedly held out as an example of how the process should work.

Sincerely,

/s/ John M. Bennett

John M. Bennett, Chairman

/s/ Walter W. Craigie	/s/ William K. Butler, II
Walter W. Craigie	William K. Butler, II
/s/ Jody M. Wagner	/s/ Philip A. Leone
Jody M. Wagner	Philip A. Leone
/s/ Walter J. Kucharski	/s/ Richard D. Brown
Walter J. Kucharski	Richard D. Brown

Attachments

Exhibit A

The Debt Capacity Model

Commonwealth Debt

- Rating agencies view control of tax-supported debt as one of four key factors affecting credit quality.
  - control of debt burden
  - economic vitality and diversity
  - fiscal performance and flexibility
  - administrative capabilities of government

- Virginia's goal is to maintain AAA/Aaa/AAA ratings for General Obligation debt.
  - Commonwealth's "AAA" rating reaffirmed by Fitch Ratings, Moody's and Standard & Poor's (November 2004)

- Definition of tax-supported debt.
  - debt service payments made or ultimately pledged to be made from general government funds
  - corresponds with rating agency definition
  - contrast with debt not supported by taxes such as moral obligation debt

Debt Capacity Model

General Observations and Assumptions

- Virginia's Debt Affordability Model:
  - Debt Affordability Measure

    $$\frac{\text{Tax-Supported Debt Service}}{\text{Revenues}} \leq 5\%$$
  - 10-year issuance period
  - Incorporates currently authorized but unissued debt
  - Blended revenue growth rate
  - Term and structure:
    - 20-year bonds
    - Assumed interest rate of 4.63% for 9(b) and 9(c) General Obligation debt. 9(d) debt has an assumed interest rate of 5.13%.
    - Level debt service (except 9(b) debt)
    - 9(b) General Obligation debt is amortized on a level principal basis
  - Actual debt service of all issued tax-supported debt, including capital leases, installment purchases and regional jail reimbursement agreements (see page A-3 for liability inclusion criteria).
  - Blended Revenues:
    - General fund revenues and state revenues in Transportation Trust Fund added together, plus transfers of ABC and Lottery profits. For purposes of the Model, 9(c) revenues and debt service of self-supporting projects are offset and have a neutral impact on debt capacity.
  - Interest Rates:
    - Assumed issuance of authorized but unissued tax-supported debt and associated debt service, computed using estimated interest rates based on the average of the last eight quarters of The Bond Buyer 11 Bond Index for general obligation debt 9(b) and 9(c), and a 50 basis point higher rate for 9(d) debt.

Debt Capacity Model
General Observations and Assumptions

Debt Capacity Advisory Committee
Liabilities included in the Debt Capacity Model

1) Outstanding tax-supported debt as determined by the DCAC.

   - General obligation bonds (Section 9(a), 9(b), and 9(c)).
   - Obligations issued by the Commonwealth Transportation Board or Virginia Port Authority that are secured, in whole or in part, by the Transportation Trust Fund.
   - Obligations issued by the Virginia Public Building Authority and the Virginia College Building Authority secured, in whole or in part, by general fund appropriations.
   - Obligations payable under regional jail Reimbursement Agreements between the Treasury Board and localities, regional jail authorities or other combination of localities.
   - Capital leases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
   - Installment purchases (80% of total of first year amounts in Commonwealth CAFR for both primary government and component units).
   - Obligations for which the debt service is paid from amounts representing payments received from the Commonwealth on a capital lease.

2) Authorized but unissued tax-supported debt as determined by the DCAC.

   - The issuance of obligations to fund a project(s) must be authorized by an Act of the General Assembly (either an Act specifically authorizing the issuance of debt, or Appropriation Act language) with no contingency for subsequent General Assembly approval. If obligations are authorized but will require further action by the General Assembly before they can be issued, then such obligations will not be included in the Model. The practical application of this rule will be that if debt can be issued for a project without any further action on the part of the General Assembly, such debt will be considered as authorized for issuance.

Debt Capacity Model
General Observations and Assumptions

Debt Capacity Advisory Committee
Liabilities included in the Debt Capacity Model

3) That portion of outstanding moral obligation debt for which the underlying debt service reserve fund has been utilized to pay all or a portion of debt service and for which the General Assembly has appropriated funds to replenish all or a portion of such debt service reserve fund as requested by the moral obligation issuer.

   - In the event that a moral obligation issuer has experienced an event of a default on the underlying revenue stream and such issuer has been forced to draw on the debt service reserve fund to pay debt service, the Committee shall immediately meet and review the circumstances surrounding such event and report its findings to the Governor and the General Assembly.

   - In the event this section is invoked, the Committee's Report to the Governor and General Assembly shall include, one Model scenario showing annual tax-supported debt capacity with inclusion of the moral obligation debt (or portion thereof) in question.

   - Inclusion of the debt in the Model is in no way intended to bind the Governor or General Assembly to make future appropriations to replenish future draws on such debt service reserve fund(s).

   - The subject debt will be removed from the Model once the General Assembly has not appropriated funds to replenish such debt service reserve fund(s).

Debt Capacity Model

Currently Authorized Tax-Supported Debt Issuance Assumptions

(Dollars in Millions)

	9(b)	9(c) Higher Education	VPBA	VCBA 21st Century Equipment	VCBA 21st Century Projects	9(d) Transportation	Virginia Port Authority	Capital Leases	Total
Authorized & Unissued as of December 31, 2004	$ 806.7	$ 237.2	$ 709.9	$ 108.9	$ 318.5	$ 97.1	$ 60.0	$ 39.7	$ 2,378.1
Assumed Issued[1]:									
FY 2005	-	-	-	-	-	-	-	-	-
FY 2006	197.0	118.6	-	52.7	119.9	-	-	39.7	527.9
FY 2007	289.0	118.6	356.3	56.2	110.0	97.1	60.0	-	1,087.2
FY 2008	192.0	-	202.6	-	54.0	-	-	-	448.6
FY 2009-13	128.7	-	151.0	-	34.6	-	-	-	314.3
Total	806.7	237.2	709.9	108.9	318.5	97.1	60.0	39.7	2,378.1
Authorized Debt Assumed Unissued	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

[1] Debt is assumed issued when the first full year of debt service is paid.

Debt Capacity Model

DEBT CAPACITY MODEL

(Dollars in Millions)

December 17, 2004

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = 5.0%

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]
Fiscal Year	Blended Revenues	Base Capacity to Pay Debt Service	9(c) Revenue Equal to Debt Service	Total Capacity to Pay Debt Service	Annual Payments for Debt Service on Debt Issued	Annual Payments for Debt Service on All Planned Debt Issuances	Actual & Projected Debt Service as a % of Revenues	Net Capacity to Pay Debt Service	Amount of Additional Debt that may Be Issued	Debt Service on the Amount of Additional Debt that may Be Issued	Remaining Capacity to Pay Debt Service	Total Debt Service as a % of Revenues
Actual 1998	9,753.64	487.68	75.69	563.37	317.53	N/A	2.48%	170.15	N/A	N/A	170.15	2.48%
Actual 1999	10,728.92	536.45	75.11	611.56	325.48	N/A	2.33%	210.96	N/A	N/A	210.96	2.33%
Actual 2000	11,875.81	593.79	68.54	662.33	344.43	N/A	2.32%	249.36	N/A	N/A	249.36	2.32%
Actual 2001	12,271.52	613.58	70.68	684.26	395.54	N/A	2.65%	218.04	N/A	N/A	218.04	2.65%
Actual 2002	12,003.78	600.19	67.36	667.55	413.58	N/A	2.88%	186.61	N/A	N/A	186.61	2.88%
Actual 2003	12,001.34	600.07	68.41	668.47	430.60	N/A	3.02%	169.47	N/A	N/A	169.47	3.02%
Actual 2004	13,142.20	657.11	65.68	722.79	439.23	N/A	2.84%	217.88	N/A	N/A	217.88	2.84%
2005	14,461.10	723.06	54.11	777.17	287.09	49.36	1.95%	440.72	**0.00**	0.000	440.72	1.95%
2006	15,080.30	754.02	68.98	822.99	449.20	103.10	3.21%	270.69	**690.58**	56.190	214.50	3.58%
2007	15,887.90	794.40	76.21	870.60	448.66	208.22	3.65%	213.72	**690.58**	112.380	101.34	4.36%
2008	16,754.20	837.71	75.60	913.31	433.97	248.94	3.62%	230.40	**690.58**	168.570	61.83	4.63%
2009	17,489.70	874.49	69.81	944.29	422.65	261.61	3.51%	260.03	**690.58**	224.760	35.27	4.80%
2010	18,328.90	916.45	64.30	980.74	394.89	265.00	3.25%	320.86	**690.58**	280.950	39.91	4.78%
2011	19,149.14	957.46	59.83	1,017.29	380.47	253.04	3.00%	383.78	**690.58**	337.140	46.64	4.76%
2012	20,043.21	1,002.16	53.81	1,055.97	358.26	240.55	2.72%	457.16	**690.58**	393.330	63.83	4.68%
2013	21,088.87	1,054.44	52.76	1,107.21	341.30	240.97	2.51%	524.93	**690.58**	449.520	75.41	4.64%
2014	22,191.27	1,109.56	46.33	1,155.89	310.67	238.37	2.27%	606.85	**690.58**	505.710	101.14	4.54%

10 Year Average:	$621.52	Excess Capacity:	$1,243.02

2.0000

[1] Revenues include the actual fiscal year revenues per the Annual Reports of the Comptroller (1998-2004), December Standard Forecast of the General Fund, including Virginia Health Care Fund revenue as permitted by Section 32.1-366 of the Code of Virginia and transfers from the Virginia Lottery and the Alcoholic Beverage Control Board, dated December 17, 2004, and certain revenues from the Transportation Trust Fund official revenue forecasts as of December 2004.

[2] Base Capacity to Pay Debt Service equals 5% of the Revenues listed in Column [1].

[3] Self-supporting 9(c) Revenue Equal to 9(c) Debt Service.

[4] Total Capacity to Pay Debt Service equals Column [2] plus Column [3].

[5] Equals the annual payments of principal and interest for all currently outstanding tax-supported debt issued through December 31, 2004.

[6] Equals the annual estimated payments of principal and interest for all currently authorized tax-supported debt planned for issuance within the next ten fiscal years. See Assumed Issuances of Currently Authorized but Unissued Tax-Supported Debt. Also includes debt service for long-term capital leases, installment purchase obligations and regional jail reimbursements.

[7] Equals annual payments for debt service on debt issued and planned debt issuances less 9(c) revenue equal to debt service, divided by Revenues. 9(c) revenues and debt service are treated as offsetting.

[8] Equals the amount of revenue available to pay debt service after principal and interest on all currently outstanding and all planned issuances of tax-supported debt has been paid. Column [4] - Column [5] -Column [6]. 9(c) Revenues and debt service are treated as offsetting.

[9] Equal to annual amount of additional principal that may be issued without violating the parameters of the model.

[10] Equal to annual amount of principal and interest to be paid on Column [9].

[11] Equals Column [8] minus Column [10].

[12] Equals the sum of all debt service payments (less 9(c) debt service) divided by Revenues. (Column [5] + Column [6] + Column [10] - Column 3) / Column [1].

DEBT CAPACITY MODEL REVENUE DATA

December 17, 2004

(Dollars In Millions)

Fiscal Year	General Fund	Transportation Trust Fund (10)	General Fund Growth	Transportation Trust Fund Growth	ABC Profit Transfer	Lottery Profit Transfer	Total Revenue (7)	Blended Revenue Growth Rate (8)
Actual 1994	6,503.76 (1)	494.30 (3)	6.02% (1)	9.67% (3)	20.73 (1)	303.50 (1)	7,322.29	5.98%
Actual 1995	6,881.12 (1)	546.50 (3)	5.80% (1)	10.56% (3)	19.01 (1)	311.60 (1)	7,758.23	5.95%
Actual 1996	7,283.56 (1)	561.76 (3)	5.85% (1)	2.79% (3)	26.00 (1)	332.60 (1)	8,203.92	5.74%
Actual 1997	8,133.55 (1)	588.08 (3)	11.67% (1)	4.69% (3)	23.80 (1)	343.00 (1)	9,088.43	10.78%
Actual 1998	8,811.04 (1)	603.00 (3)	8.33% (1)	2.54% (3)	20.70 (1)	318.90 (1)	9,753.64	7.32%
Actual 1999	9,737.70 (1)	643.82 (3)	10.52% (1)	6.77% (3)	25.50 (1)	321.90 (1)	10,728.92	10.00%
Actual 2000	10,831.53 (1)	689.78 (3)	11.23% (1)	7.14% (3)	30.20 (1)	324.30 (1)	11,875.81	10.69%
Actual 2001	11,160.73 (1)	753.29 (3)	3.04% (1)	9.21% (3)	28.10 (1)	329.40 (1)	12,271.52	3.33%
Actual 2002	10,743.02 (1)	749.33 (4)	-3.74% (1)	-0.53% (4)	25.40 (1)	367.20 (1)	11,884.95	-3.15%
Actual 2003	10,867.10 (1)	744.94 (4)	1.15% (1)	-0.59% (4)	14.20 (1)	375.10 (1)	12,001.34	0.98%
Actual 2004	11,917.90 (1)	799.70 (4)	9.67% (1)	7.35% (4)	16.80 (1)	407.80 (1)	13,142.20	9.51%
2005	13,185.30 (2)	837.20 (4)	10.63% (2)	4.69% (4)	15.10 (2)	423.50 (2)	14,461.10	10.04%
2006	13,752.20 (2)	866.50 (4)	4.30% (2)	3.50% (4)	19.80 (2)	441.80 (2)	15,080.30	4.28%
2007	14,537.00 (2)	889.30 (4)	5.71% (2)	2.63% (4)	19.80 (2)	441.80 (2)	15,887.90	5.36%
2008	15,368.60 (2)	924.00 (4)	5.72% (2)	3.90% (4)	19.80 (2)	441.80 (2)	16,754.20	5.45%
2009	16,075.50 (2)	952.60 (4)	4.60% (2)	3.10% (4)	19.80 (2)	441.80 (2)	17,489.70	4.39%
2010	16,873.60 (2)	993.70 (4)	4.96% (2)	4.31% (4)	19.80 (2)	441.80 (2)	18,328.90	4.80%
2011	17,669.00 (2)	1,018.54 (6)	4.71% (2)	2.50% (6)	19.80 (2)	441.80 (2)	19,149.14	4.48%
2012	18,537.60 (2)	1,044.01 (6)	4.92% (2)	2.50% (6)	19.80 (2)	441.80 (2)	20,043.21	4.67%
2013	19,557.17 (5)	1,070.11 (6)	5.50% (5)	2.50% (6)	19.80 (9)	441.80 (9)	21,088.87	5.22%
2014	20,632.81 (5)	1,096.86 (6)	5.50% (5)	2.50% (6)	19.80 (9)	441.80 (9)	22,191.27	5.23%

(1) Annual Reports of the Comptroller, FY 1994-2004.
(2) The December Standard General Fund Forecast for FY 2005-2012, dated December 17, 2004, including Virginia Health Care Fund revenue as permitted by Section 32.1-366 of the Code of Virginia.
(3) Department of Motor Vehicles.
(4) Department of Taxation.
(5) Flat growth rate of 5.50% for years 2013-2014, per Department of Taxation on December 9, 2004.
(6) Flat growth rate of 2.50% for years 2011-2014, per Department of Taxation on December 9, 2004.
(7) Total Revenue = GF + TTF + ABC + Lottery Revenues.
(8) Blended Revenue Growth Rate = (Current FY Total Revenue / Prior FY Total Revenue) - 1.
(9) FY 2013 - 2014 based on FY 2005 - 2012 Forecasts per December Standard General Fund Forecast, dated December 17, 2004.
(10) Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts or Toll Revenues.

Debt Capacity Model

Annual Debt Service Requirements and Other Long-Term Obligations
Outstanding As of June 30, 2004 Plus Fiscal Year 2005 Issuance Through December 31, 2004*
(Dollars in Thousands)

Fiscal Year Ending June 30	General Obligation Debt Sections 9(a), 9(b) and 9(c)	Other Tax-Supported Debt Section 9(d)	Capital Lease and Installment Purchases	Regional Jail Reimbursements	Debt Service on Planned Issuances	Debt Service on Unallocated Debt Capacity	GRAND TOTAL
2005	118,560	296,636	46,725	2,633	-	-	464,555
2006	132,137	317,066	48,656	2,637	51,812	56,190	608,498
2007	128,025	320,636	48,655	2,633	156,932	112,380	769,262
2008	123,131	310,843	48,656	2,632	197,649	168,570	851,482
2009	117,390	305,263	48,655	2,634	210,319	224,760	909,021
2010	109,705	285,180	48,656	2,633	213,707	280,950	940,832
2011	103,034	277,433	48,659	2,636	201,750	337,140	970,652
2012	88,599	269,663	48,655	2,636	189,255	393,330	992,138
2013	85,348	255,956	48,657	2,637	189,680	449,520	1,031,798
2014	71,762	238,906	48,657	1,902	187,812	505,710	1,054,749
TOTAL	$ 1,077,691	$ 2,877,582	$ 484,631	$ 25,613	$ 1,598,917	$ 2,528,550	$ 8,592,984

* Preliminary and unaudited

The Debt Capacity Model

Parameters of the Model

(1) **Blended Revenues** include all general fund revenues (exclusive of transfers), ABC and Lottery profits transferred to the general fund and state tax revenues in the Transportation Trust Fund.

(2) **Base Capacity to Pay Debt Service** is calculated as the product of the Debt Capacity Maximum Ratio and Revenues. [Column 2 = Column 1 x .05]

(3) **9(c) Revenues** represents 9(c) revenue equal to debt service on outstanding 9(c) debt.

(4) **Total Capacity to Pay Debt Service** is calculated as the Base Capacity plus 9(c) revenues equivalent to 9(c) debt service. It represents the maximum level of debt service allowed given the 5% debt service/revenues ratio. [Column 4 = Column 1 x 5%+ Column 3]

(5) **Annual Payments for Debt Service on Debt Issued** is actual debt service on all tax-supported debt outstanding at the end of the most recent fiscal year and on any issuance to date since fiscal year end.

(6) **Annual Payments for Debt Service on All Planned Debt Issuances** is the estimated amount of debt service for currently authorized and unissued tax-supported debt assumed to be issued within the ten-year period.

(7) **Actual and Projected Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances less 9(c) debt service equal to revenue, divided by Revenues. 9(c) Revenues and 9(c) Debt Service are treated as offsetting.

The Debt Capacity Model (continued)

Parameters of the Model

(8) **Net Capacity to Pay Debt Service** is Total Capacity to Pay Debt Service less Annual Payments for Debt Service on Debt Issued and Annual Payments for Debt Service on All Planned Debt Issuances. [Column 8= 4-5-6]

(9) **Amount of Additional Debt that May Be Issued** is the amount of additional tax-supported debt (above and beyond that which is currently authorized but unissued) that may be issued in any given year without exceeding Overall Capacity to Pay Debt Service.

(10) **Debt Service on the Amount of Additional Debt that May Be Issued** is the estimated amount of debt service for the Additional Debt that may be Authorized and Issued.

(11) **Remaining Capacity to Pay Debt Service** is Net Capacity to Pay Debt Service less Debt Service on the Amount of Additional Debt that may be Authorized and Issued. [Column 11=8-10]

(12) **Total Debt Service as a % of Revenues** is the sum of Annual Payments for Debt Service on Debt Issued, Annual Payments for Debt Service on All Planned Debt Issuances and Debt Service on the Amount of Additional Debt that may be Authorized and Issued, divided by Revenues and 9(c) Revenues.

The Debt Capacity Model (continued)

Parameters of the Model

- Model solves for annual capacity, above and beyond authorized amounts assumed issued for the next ten fiscal years at the 5% debt service/revenues level over a ten-year period.

  $690.58 million is equal annual issuance capacity.

  - debt service/revenues ratio rises to a maximum of 4.80% in FY 2009
  - projected issuance never reaches 5% capacity and two years excess capacity is maintained at end of ten-year period

- Two years of excess capacity is a function of conservatism.

Exhibit B

The Debt Capacity Model
Sensitivity Analysis

The Debt Capacity Model Sensitivity Analysis

Excess Capacity Sensitivity

- Model solution provides for **two years of excess capacity** remaining at end of the ten-year Model period which results in the following annual debt capacity:

  2 Year Excess Capacity **$690.58 million**

- If the Model solution is altered to reduce the two years of excess capacity to **one year of excess capacity**, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.92% in fiscal years 2009 through 2011.
  - $753.35 million of annual debt capacity is available for the ten-year Model period.

- If the Model solution is altered to reduce the two years of excess capacity to **no excess capacity**, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal years 2010 through 2014.
  - $786.10 million of debt capacity is available in fiscal years 2006 through 2011. Annual debt capacity increases to $867.38 million in fiscal years 2012 and 2013. Capacity increases again in fiscal year 2014, to $1,006.80 million.

The Debt Capacity Model Sensitivity Analysis

Revenue Sensitivity

- If the Model solution is altered to increase or decrease General Fund revenues, the following incremental annual debt capacity changes are produced:

For each change of $100 million in each and every year	**$6.33 million**
For each 1% change of revenues in each and every year	**$11.73 million**

Interest Rate Sensitivity

- If the Model solution is altered to change interest rates, the following annual debt capacity figures are produced:

Add 100 basis points to base rate	**$622.42 million**
Subtract 100 basis points from base rate	**$769.02 million**

Exhibit C

Background Information

Background

Creation of the Debt Capacity Advisory Committee was recommended in *An Assessment of Debt Management in Virginia*, December 1990. The Committee was originally created in September 1991, by Executive Order #38. The Committee was subsequently codified under Chapter 43 of the 1994 Virginia Acts of Assembly, as amended.

The Committee's mandate is to annually review the size and condition of the Commonwealth's tax-supported debt and 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.

In developing its annual estimate and in preparing its annual report, the Committee shall, at a minimum, consider:

- the amount of tax-supported debt that, during the next fiscal year and annually for the following nine fiscal years, will be outstanding and the amount of tax-supported debt which has been authorized but not yet issued;
- a projected schedule of affordable, state tax-supported debt authorizations for the next biennium;
- projected debt service requirements during the next fiscal year and annually for the following nine fiscal years based on existing outstanding debt, previously authorized but unissued debt, and projected debt authorizations;
- the criteria that recognized bond rating agencies use to judge the quality of Commonwealth bond issues;

Background (Continued)

- any other factor that is relevant to (i) the ability of the Commonwealth to meet its projected debt service requirements for the next two fiscal years; (ii) the ability of the Commonwealth to support additional debt service in the upcoming biennium; (iii) the requirements of the statewide capital plan; and (iv) the interest rate to be borne by, the credit rating on, or any other factor affecting the marketability of such bonds; and
- the effect of authorizations of new tax-supported debt on each of the considerations listed above.

The Committee is also required to annually review the amount and condition of moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability and make recommendations to ensure the prudent use of such obligations.

In addition, the Committee is also required to review the amount and condition of Commonwealth obligations that are not general obligations or moral obligations, and when appropriate, recommend limits on such additional obligations to the Governor and to the General Assembly.

Review of the December 2003 Report

The Committee issued its thirteenth annual report to the Governor and the General Assembly on December 19, 2003. The report addressed the following issues:

- Reaffirmed the use of debt service on tax-supported debt and related long-term obligations as a percentage of revenues as the debt affordability measure used in the Model. In addition, reaffirmed a maximum ratio of debt service as a percentage of revenues of 5%.

- Concluded that the Commonwealth could issue $661.91 million of tax-supported debt in each year from fiscal year 2005 through fiscal year 2013 above and beyond tax-supported debt already outstanding or authorized, while still holding the ratio to tax-supported debt service as a percentage of revenues below 5%.

- Recommended that $661.91 million of tax-supported debt could be prudently authorized by the 2004 and 2005 Sessions of the General Assembly, representing a maximum authorized amount of $1,323.82 million for the biennium.

- Noted that the Model's results are sensitive to changes in revenues. Specifically, that a one percent change in general fund revenues in each and every year of the Model's solution horizon will change annual debt capacity by approximately $10.9 million. A change in general fund revenues of $100 million in each and every year of the Model's solution horizon will produce an incremental debt capacity change of approximately $5.6 million annually.

- Made no recommendation as to which projects, if any, should be chosen for debt financing or how they should be prioritized. Reaffirmed that this decision was most appropriately made through the budgetary and legislative processes.

Review of the December 2003 Report (Continued)

- Continued to recommend that Cabinet Secretaries work with the Secretary of Finance to develop a proposal for rescinding unnecessary authorizations for consideration in the 2004 General Assembly Session.

- Continued to recommend the use of financing processes which promote the lowest possible cost of funds to the Commonwealth by by utilizing traditional financing vehicles such as the Virginia Public Building Authority and the Virginia College Building Authority whenever appropriate.

- Reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability. The Committee reconfirmed that the Commonwealth is not unique in its use of moral obligation debt, as a number of other state issuers utilize the moral obligation pledge. The Committee continued to review the types of programs, statutory caps, outstanding amounts and other financial data for certain other states that utilize moral obligation bond programs and compared these to Commonwealth issuers. The Committee recommended no changes to existing programs and recommended no change to levels of statutory caps for the three issuers currently utilizing the moral obligation pledge of the Commonwealth.

- Reviewed the transportation debt policy adopted by the Commonwealth Transportation Board ("CTB") on November 20, 2003. The CTB debt policy focused on Federal Highway Reimbursement Anticipation Notes and established limitations and guidelines with respect to debt service, revenue, maturities and maximum principal amount. The Committee reported the CTB debt policy to the Governor and the General Assembly.

Commonwealth Debt (per the Comprehensive Annual Financial Report, dollars in thousands)

	As of June 30, 2004	As of June 30, 2003
Tax-Supported Debt		
9(b) General Obligation [1]	$ 414,163	$ 454,402
9(c) General Obligation - Higher Education	316,923	349,185
9(c) General Obligation - Transportation	98,029	107,034
9(c) General Obligation - Parking Facilities	5,717	6,457
Commonwealth Transportation Board	1,049,901	1,072,229
Virginia Public Building Authority	869,266	956,496
Virginia Port Authority	212,798	222,221
Virginia College Building Authority - 21st Century & Equip	389,390	448,525
Innovative Technology Authority	9,345	9,965
Virginia Biotechnology Research Park Authority	81,295	84,335
Transportation Notes Payable	12,325	12,325
Capital Leases	279,898	301,487
Installment Purchases	54,455	52,624
Regional Jail Reimbursement Agreements	16,654	18,252
Compensated Absences [2]	487,145	477,775
Pension Liability [2]	762,761	655,463
Virginia Public Broadcasting Board	17,950	20,005
Virginia Aviation Board	3,341	3,627
Industrial Development Authority Obligations [3]	30,845	34,410
Other Liabilities [2]	20,928	20,082
Total Tax Supported Debt	$ 5,133,129	$ 5,306,899
Debt Not Supported By Taxes [2]		
Moral Obligation / Contingent Liability Debt		
Virginia Resources Authority	$ 724,796	$ 704,693
Virginia Housing Development Authority	735,600	915,890
Virginia Public School Authority - 1991 Resolution	248,837	345,435
Virginia Public School Authority - 1997 Resolution	1,996,921	1,524,155
Virginia Public School Authority - Equipment Technology Notes	156,100	133,500
Total Moral Obligation/Contingent Liability Debt	$ 3,862,254	$ 3,623,673
Other Debt Not Supported By Taxes		
9(d) Higher Education	$ 563,986	$ 538,207
Virginia College Building Authority - Pooled Bond Program	537,035	436,050
Virginia College Building Authority - Private College Program	358,615	363,520
Virginia Public School Authority	62,498	243,469
Virginia Public School Authority - Equipment Notes	14,420	28,140
Virginia Housing Development Authority	3,476,198	3,834,763
Virginia Port Authority	146,427	148,255
Virginia Equine Center	15,745	15,970
Hampton Roads Sanitation District	133,567	142,046
Virginia Biotechnology Research Park Authority	13,525	14,265
Virginia Resources Authority	516,423	215,431
Pocahontas Parkway Association Bonds	447,372	432,563
Federal Highway Reimbursement Anticipation Notes	786,645	864,715
Bond Anticipation Notes	-	1,303
Notes Payable	10,806	9,294
Other Long-Term Debt	285,264	293,304
Foundations	484,147	-
Total Other Debt Not Supported By Taxes	$ 7,852,673	$ 7,581,295

Source: Department of the Treasury and Department of Accounts

[1] Voter approved

[2] **NOT INCLUDED IN DEBT CAPACITY MODEL**

[3] Newport News Industrial Development Authority for Virginia Advanced Shipbuilding & Carrier Integration Center

Tax-Supported Debt Issuances in Fiscal Year 2005
As of December 31, 2004

Issuer	Date Issued	Amount
Virginia College Building Authority, Educational Facilities Revenue Bonds (21st Century College & Equipment Programs), Series 2004A	July 2004	$ 172,600,000
Town of Jarratt, Virginia Commonwealth of Virginia Lease Revenue Bond (Dept. of Corrections Project), Series 2004	July 2004	$ 785,000
Commonwealth of Virginia General Obligation Bonds, Series 2004A	August 2004	$ 186,325,000
Virginia Public Building Authority, Public Facilities Revenue Bonds, Series 2004B	August 2004	$ 207,065,000
Virginia Public Building Authority, Public Facilities Revenue Refunding Bonds, Series 2004C	August 2004	$ 39,260,000

Tax-Supported Debt Issuances in Fiscal Year 2005
As of December 31, 2004 (continued)

Issuer	Date Issued	Amount
Commonwealth Transportation Board, Commonwealth of Virginia Transportation Revenue Refunding Bonds, Series 2004A (NVTD Program) & Series 2004B (Rt. 58 Program)	November 2004	$ 321,660,000
Commonwealth of Virginia General Obligation Refunding Bonds, Series 2004B	November 2004	$ 170,530,000
Virginia Public Building Authority Public Facilities Revenue Refunding Bonds, Series 2004D	December 2004	$ 106,460,000
Virginia College Building Authority Educational Facilities Revenue Refunding Bonds (21st Century College Program), Series 2004B	December 2004	$ 61,395,000

Commonwealth Debt

Outstanding Tax-Supported Debt
As of December 31, 2004*
(Dollars in Thousands)

Tax-Supported Debt Included in the Model [(1)]		
9(b) General Obligation Bonds		$574,233
Bonds[(2)]	$574,233	
9(c) Revenue-Supported GOBs		$444,339
Higher Education[(2)(3)]	$335,203	
Transportation[(2)(3)]	$98,029	
Parking Facilities[(2)]	$11,107	
9(d) Obligations		$3,371,805
Transportation Board[(2)]	$1,057,711	
Virginia Public Building Authority[(2)(3)]	1,056,076	
Port Authority[(3)]	201,923	
Virginia College Building Authority 21st Century	557,345	
Bonded Capital Leases and Lease Revenue Bonds[(4)]	207,470	
Virginia Aviation Board	3,198	
Virginia Public Broadcasting Board	16,875	
Regional Jail Reimbursement Agreements	16,654	
Transportation Notes Payable	12,325	
Capital Leases	187,773	
Installment Purchases	54,455	
Total Tax-Supported Debt Included in Model		$4,390,377
Additional Long-Term Obligations Included in the CAFR		
But Not Included in the Model		
Long-Term Obligations Not Included in Model		$1,270,834
Compensated Absences	$487,145	
Pension Liability	762,761	
Other Long-Term Liabilities	20,928	
Total Tax-Supported Debt (CAFR Plus Subsequent Issuance)		$5,661,211

(1) June 30, 2004 Balance Plus Fiscal Year 2005 Issuances and principal payments through December 31, 2004.

(2) Net of deferral on debt defeasance.

(3) Net of unamortized discount and/or premiums.

(4) Bonded Capital Leases include the capital lease obligations supporting lease revenue bonds for Innovative Technology Authority, Virginia Biotechnology Research Park Authority, Big Stone Gap Redevelopment and Housing Authority, Norfolk Redevelopment and Housing Authority, Norfolk Industrial Development Authority, Newport News Industrial Development Authority and the Town of Jarratt, Virginia.

*Preliminary and unaudited

Commonwealth Debt

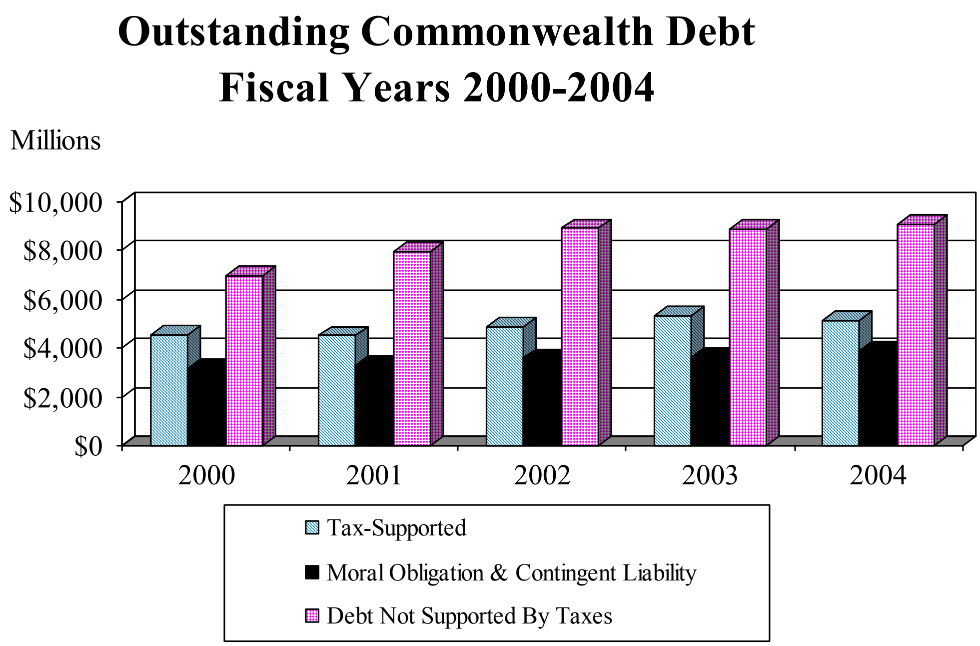
Authorized But Unissued Tax-Supported Debt as of December 31, 2004*

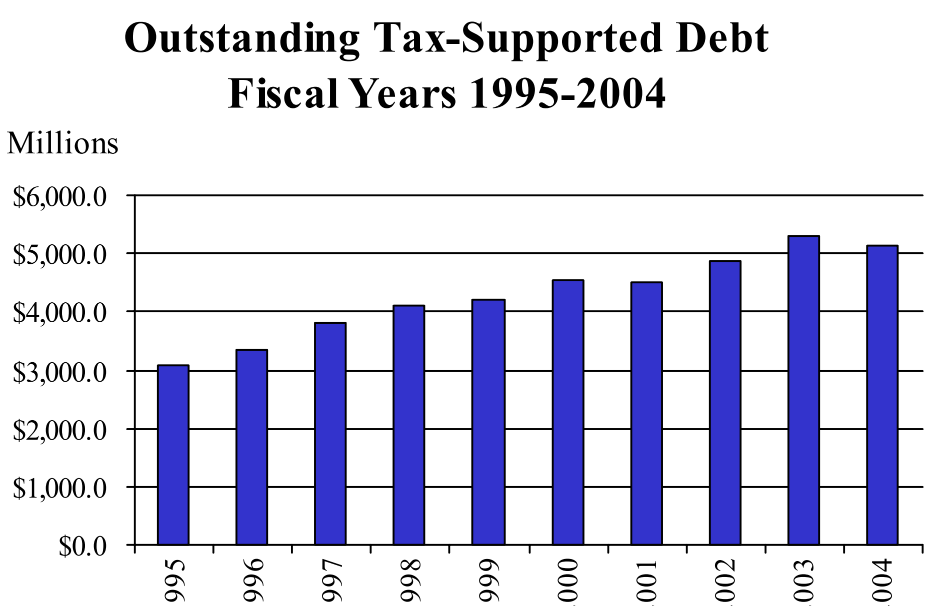
(Dollars in Thousands)

Section 9(b) Debt:		$ 806,742
Section 9(c) Debt:		
Higher Education Institutions Bonds		$ 237,246
Section (9d) Debt:		
Transportation Revenue Bonds (Northern Virginia Transportation District Program)	97,100	
Virginia Public Building Authority - Projects	653,809	
Virginia Public Building Authority - Jails & Juvenile Detention Facilities	56,136	
Virginia College Building Authority - 21st Century Equipment	108,900	
Virginia College Building Authority - 21st Century Projects	318,477	
Virginia Port Authority	60,000	
Capital Lease Financings	39,670	
Subtotal 9(d) Debt:		$ 1,334,092
Total		$ 2,378,080

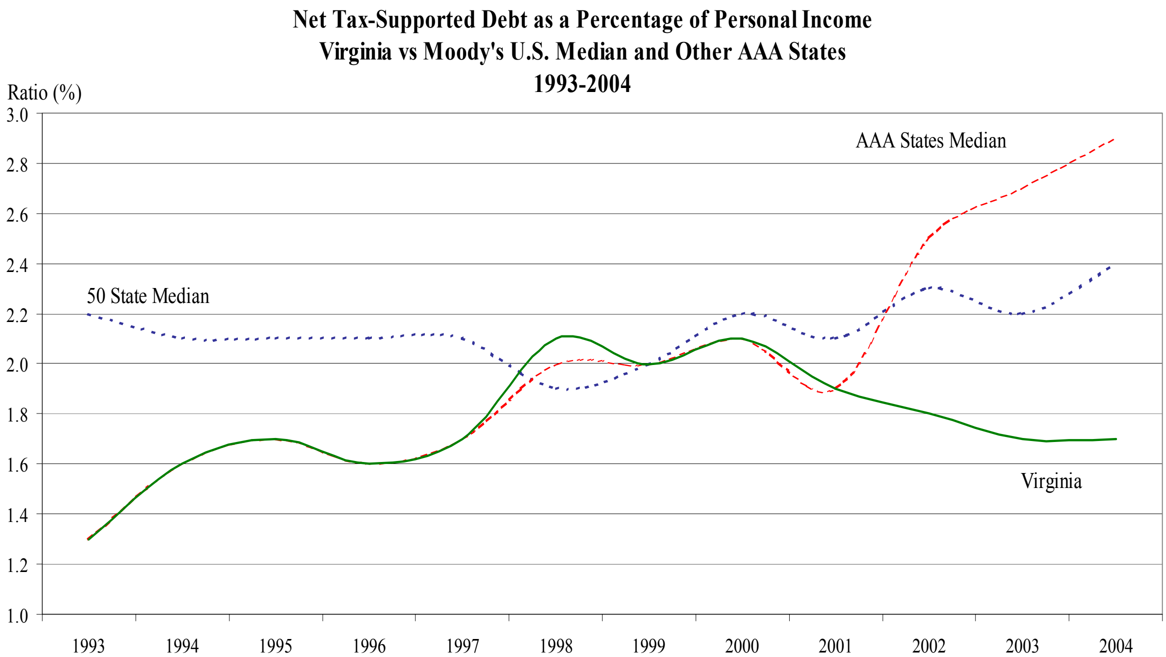
*Preliminary and unaudited

Commonwealth Debt

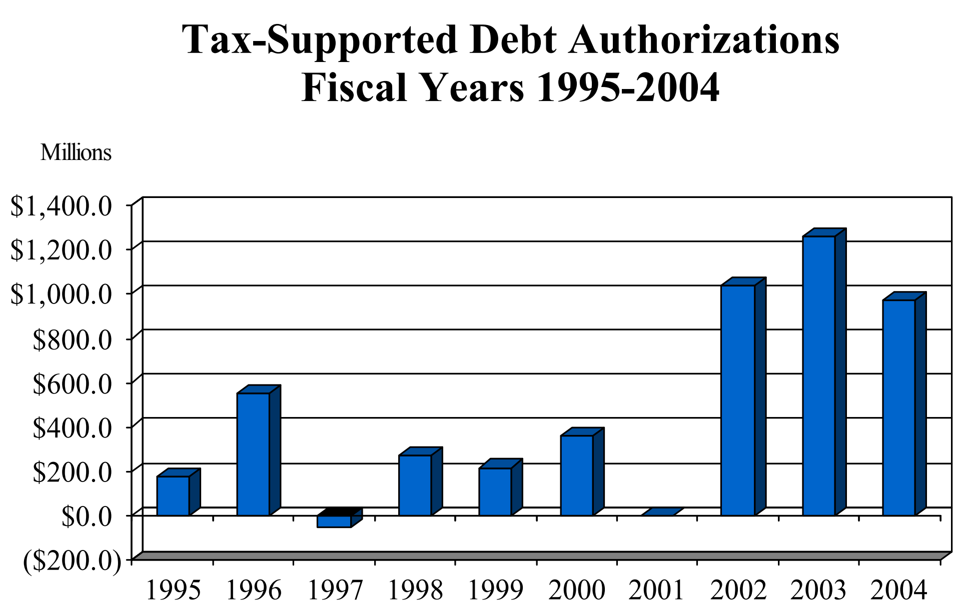




Commonwealth Debt

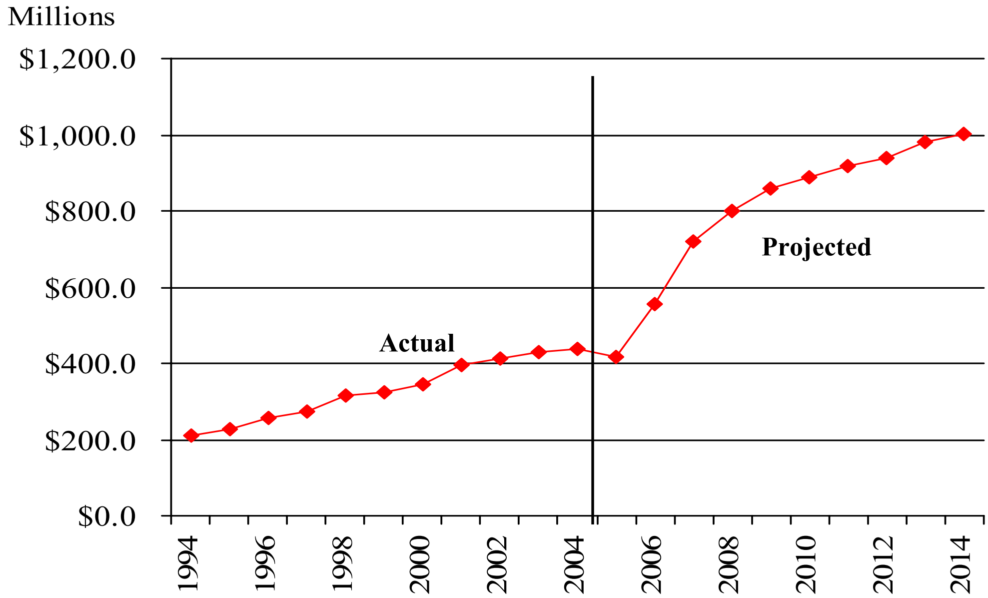


Source: Moody's Investors Service



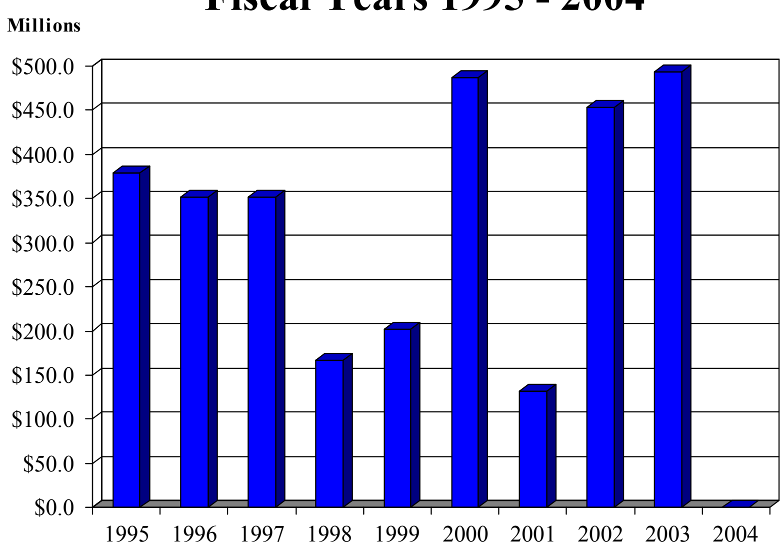
Commonwealth Debt

Tax-Supported Debt Service: Actual and Projected Fiscal Years 1994 – 2014*



* Includes Virginia Biotech Research Park Authority, Innovative Technology Authority, Newport News Industrial Development Authority and the Town of Jarratt, Virginia. Does not include other capital leases, installment purchase obligations or regional jail reimbursement payments.

Trend in Tax-Supported Debt Issuance Fiscal Years 1995 - 2004



AAA/Aaa/AAA State Debt Burdens
1997 – 2004

AAA/Aaa/AAA STATE DEBT BURDENS FROM 1997-2004
PROVIDED BY MOODY'S INVESTORS SERVICE

Net Tax-Supported Debt per Capita (1)

	2004	2003	2002	2001	2000	1999	1998	1997
Delaware	1,800	1,599	1,650	1,616	1,544	-	-	-
Maryland	1,077	977	879	819	895	953	849	875
Utah	846	682	708	634	693	705	560	301
Georgia	827	802	804	679	697	679	647	669
South Carolina	599	587	615	398	347	321	309	305
VIRGINIA	**546**	**546**	**566**	**537**	**570**	**516**	**519**	**414**
Missouri	461	368	347	288	245	233	238	276
Minnesota	-	-	576	546	513	525	489	520
North Carolina	-	-	375	340	343	273	229	151
AAA Median	827	682	615	546	570	521	504	360
AAA Average	879	794	724	651	650	526	480	439

(1) Population is based on Census data from one year prior to each respective year's debt analyzed.

Net Tax-Supported Debt as Percent of Personal Income (2)

	2004	2003	2002	2001	2000	1999	1998	1997
Delaware	5.6	4.9	5.3	5.5	5.2	-	-	-
Utah	3.5	2.8	3.0	2.8	3.3	3.6	3.1	1.7
Maryland	3.0	2.7	2.6	2.6	3.0	3.3	3.1	3.3
Georgia	2.9	2.8	2.9	2.6	2.8	2.9	2.9	3.1
South Carolina	2.4	2.3	2.5	1.8	1.6	1.6	1.6	1.6
VIRGINIA	**1.7**	**1.7**	**1.8**	**1.9**	**2.1**	**2.0**	**2.1**	**1.7**
Missouri	1.6	1.3	1.3	1.1	1.0	1.0	1.0	1.3
Minnesota	-	-	1.8	1.8	1.9	2.0	1.9	2.2
North Carolina	-	-	1.4	1.4	1.4	1.2	1.0	0.7
AAA Median	2.9	2.7	2.5	1.9	2.1	2.0	2.0	1.7
AAA Average	3.0	2.6	2.5	2.4	2.5	2.2	2.1	2.0

(2) Personal income is based on Census data from two years prior to each respective year's debt analyzed.

Exhibit D

Moral Obligation Debt
And
Contingent Liability Debt

Moral Obligation Debt

- Definition of Moral Obligation Debt:

  Moral obligation debt refers to a bond issue structure originally created in the 1960s and utilized primarily by state housing finance agencies or state-administered municipal bond banks as additional credit enhancement for revenue bond issues. A government's moral obligation pledge provides a deficiency make-up for bondholders should underlying project revenues prove insufficient. The mechanics involve funding a debt service reserve fund when the bonds are issued. If a revenue deficiency exists, reserve fund monies are used to pay bondholders. The issuer then informs the legislative body requesting that it replenish the reserve fund before subsequent debt service is due. The legislative body "may", but is not legally required to, replenish the reserve fund.

- Rating agencies do not include in tax-supported debt ratios as long as bonds are self-supporting.

- Commonwealth Moral Obligation Debt Issuers:

  –Virginia Resources Authority

  –Virginia Housing Development Authority

  Multi-Family Housing Bonds

  –Virginia Public School Authority - 1991 Resolution

Moral Obligation Debt

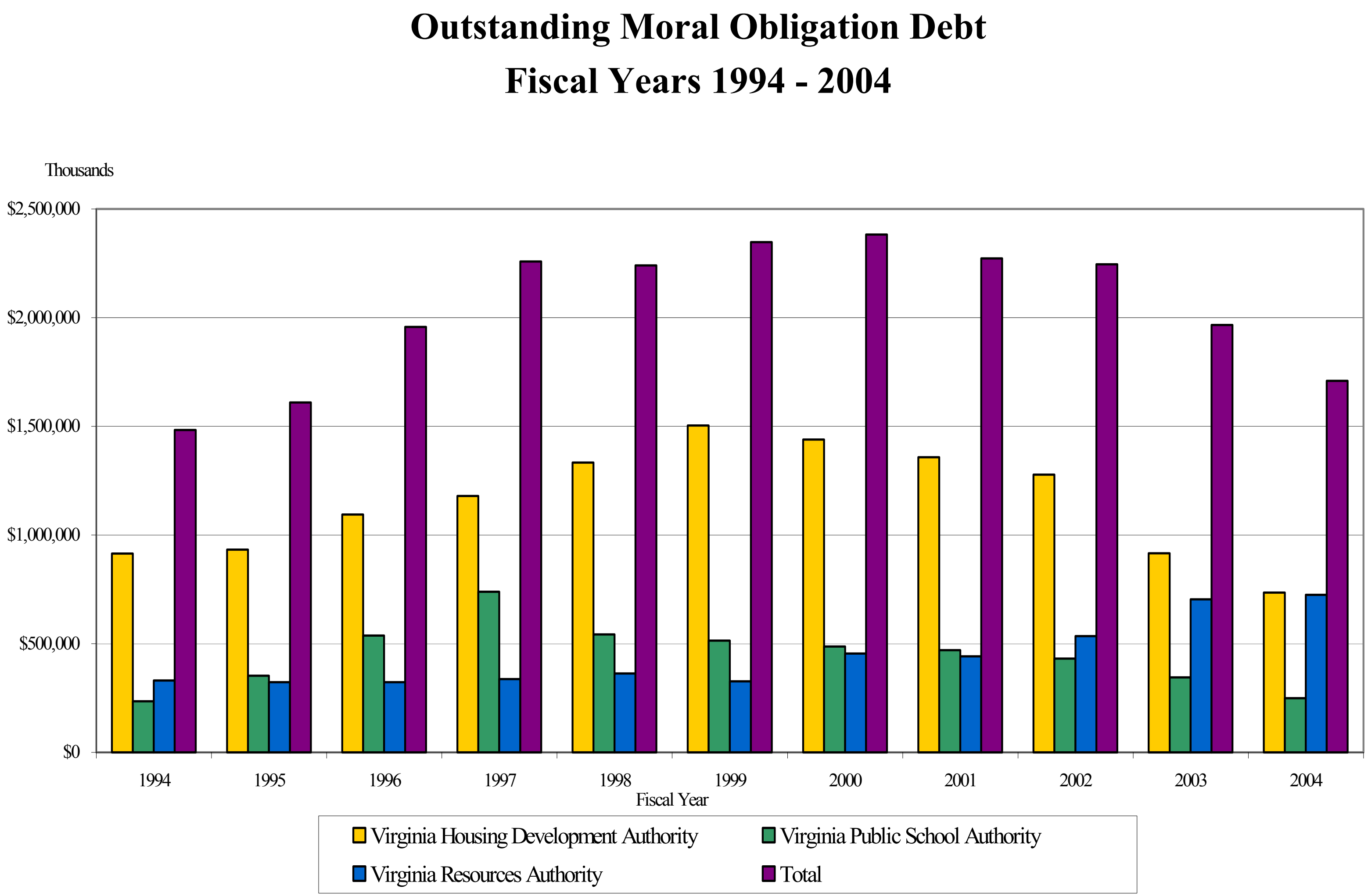
Issuer	Statutory Limit	Outstanding At June 30, 2004	Available Authorization
Virginia Resources Authority	$ 900,000	$ 724,796	$ 175,204
Virginia Housing Development Authority	1,500,000	735,600	764,400
Virginia Public School Authority	800,000	248,837	551,163
Total	$3,200,000	$1,709,233	$1,490,767

Dates upon which issuers expect to meet or exceed statutory borrowing cap:

VHDA:	N/A	- Alternative financing programs initiated in fiscal year 1999 do not require use of moral obligation. Does not expect to issue additional moral obligation debt.
VRA:	FY 2007	- Cap raised from $550 million to $900 million in 2001. Cap is not expected to be exceeded during the current biennium.
VPSA:	N/A	- Created the 1997 Resolution for pooled bond program. Does not expect to issue additional debt under 1991 Resolution.

Bond Ratings:	Fitch	Moody's	S&P
VHDA (Multi-Family):	N/R	Aa1	AA+
VRA:	N/R	Aa2	AA
VPSA (1991 Resolution):	AA+	Aa1	AA+

Moral Obligation Debt



Contingent or Limited Liability Debt

- The only non-tax-supported debt obligations for which the Commonwealth has a contingent or limited liability are those which utilize a "sum sufficient appropriation" (SSA) to pay debt service.

- SSA was previously only used on certain revenue bonds issued by the Virginia Public School Authority under its 1997 Resolution. The Virginia Public School Authority had $1,996,921,300 of 1997 Resolution bonds outstanding as of June 30, 2004.

- The 2000 Appropriation Act (Chapter 1073) authorized the use of SSA for certain revenue notes issued by the Virginia Public School Authority under its Educational Technology Program. The SSA was codified during the 2001 General Assembly session. The Virginia Public School Authority issued its first series of notes enhanced by the SSA in the Spring of 2001. Notes outstanding as of June 30, 2004 equal $156,100,000.

Bond Ratings:	Fitch	Moody's	S&P
VPSA (1997 Resolution):	AA+	Aa1	AA+
VPSA (Equipment Technology Notes):	AA+	Aa1	AA+

Moral Obligation Debt

Excess Capacity Sensitivity

- The current Model solution provides for two years of excess capacity remaining at end of the 10-year Model period (excluding moral obligation debt) which results in annual debt capacity of $690.58 million.

Total Moral Obligation Debt Sensitivity

- If the Model solution is altered to assume conversion of the entire $3.2 billion statutory cap for all moral obligation debt to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues rises above 5% in fiscal years 2007 and 2008, falling to 4.99% in fiscal year 2009. As a result, there would be no capacity to issue additional debt until fiscal year 2009.
  - Annual debt issuance capacity is $12.70 million in fiscal year 2009 and $711.56 in 2010 through 2014.

VHDA Sensitivity

- If the Model solution is altered to assume conversion of the VHDA's total outstanding moral obligation debt (as of 6/30/04) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - Annual debt issuance capacity of $616.01 million is available through fiscal year 2009. For fiscal years 2010 through 2014, debt capacity would increase to $628.64 million per year.

Moral Obligation Debt

VRA Sensitivity

- If the Model solution is altered to assume conversion of the VRA's total statutory moral obligation cap of $900 million to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - $575.12 million of annual debt issuance capacity is available is available through 2009. For fiscal years 2010 through 2014, debt capacity increases to $634.17 million per year.

VPSA Sensitivity

- If the Model solution is altered to assume conversion of the VPSA's total outstanding moral obligation debt (as of 6/30/04) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.87% in fiscal year 2009.
  - $667.72 million of annual debt issuance capacity is available for the ten-year Model period.

Sum Sufficient Appropriation Sensitivity

VPSA Sensitivity

- If the Model solution is altered to assume conversion of the VPSA's total outstanding debt secured by a sum sufficient appropriation (as of 6/30/04) to tax-supported debt, the following annual debt capacity figures are produced:
  - Debt service as a percentage of revenues peaks at 4.99% in fiscal year 2009.
  - Annual debt issuance capacity of $200.00 million is available through fiscal year 2008. In fiscal year 2009, capacity rises to $450.00 million. For fiscal years 2010 through 2014, debt capacity would increase to $617.16 million per year.