COMMONWEALTH of VIRGINIA

Office of the Governor

Richard D. Brown
Secretary of Finance

P.O. Box 1475
Richmond, Virginia 23218

December 29, 2010

The Honorable Robert F. McDonnell
Governor of Virginia
Patrick Henry Building, 3rd Floor
Richmond, Virginia 23219

The Honorable Bruce F. Jamerson
Clerk of the House of Delegates
Virginia House of Delegates
State Capital, Room 303
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar
Clerk of the Senate
Senate of Virginia
State Capital Building, 3rd Floor
Richmond, Virginia 23219

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

The Debt Capacity Advisory Committee ("Committee" or "DCAC") is required pursuant to Section 2.2-2713 of the Code of Virginia to annually review the size and condition of the Commonwealth's tax-supported debt and submit to the Governor and General Assembly an estimate of the maximum amount of new tax-supported debt that prudently may be authorized and issued 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. I am pleased to present the report for 2010.

In 2009, with significant downward revisions to the revenue forecast and significant bond authorizations in recent years, the Committee found there was no additional debt capacity. Recognizing that the lack of borrowing capacity may itself be viewed as a credit weakness, the DCAC requested a study by staff to help determine if the ratio used by the Committee is still the best way to measure the Commonwealth's capacity, if the Committee should continue to rely on a single ratio tied to revenues, and how results can be smoothed to facilitate capital planning and avoid dramatic changes in capacity, particularly in times of extraordinary fluctuations in revenues. The Committee met on September 20 and September 28 to hear staff recommendations and a consultant's report on debt capacity practices in other states. Based on the Committee's input, Treasury staff finalized the study and on November 30, 2010, with a seven to two vote, the Committee approved a few changes to its debt capacity model.

The primary changes adopted by the Committee result in the inclusion in the model of certain additional revenue and transfer items that are part of the state's official general fund forecast, and an adjustment to debt service for amounts expected to be paid from non-general fund sources. The average capacity over the ten-year period is used to determine debt capacity for each year. The determination of debt capacity will continue to be based on the stringent five percent measure of debt service to blended revenues. Using this ten-year average approach will help smooth the effect of large revenue fluctuations and facilitate long-term capital planning.

Based on the revised assumptions adopted and implemented beginning in 2010, the Committee estimates that an additional $363 million in debt could be authorized in each of fiscal years 2011 and 2012. The amount is based on an average annual capacity over the entire ten years of the model. This amount will cause projections of debt service as a percent of blended revenues over the ten-year model horizon to exceed five percent in some years and be below in other years. This capacity is based on issuance assumptions contained in the model. If these assumptions change, the resulting capacity may also change.

The report is intended to provide the Governor and the General Assembly with a basis to assess the impact of future debt issuance on the Commonwealth's fiscal position and enable informed decision-making regarding both financing proposals and capital spending priorities. The report also provides historical perspective on the Commonwealth's authorization and issuance of tax-supported debt over the last decade.

Sincerely,

Richard D. Brown, Chairman
Debt Capacity Advisory Committee

Attachment

c: Debt Capacity Advisory Committee Members

Commonwealth of Virginia

Debt Capacity Advisory Committee

Report to the Governor and the General Assembly

December 17, 2010

Report of the Debt Capacity Advisory Committee
December 17, 2010

Debt Capacity Advisory Committee Members

The Honorable Richard D. Brown – Chairman
Secretary of Finance

William K. Butler
Citizen Member

Elizabeth B. Daley
Staff Director, Senate Finance Committee

Manju S. Ganeriwala
State Treasurer

Walter J. Kucharski
Auditor of Public Accounts

Ronald L. Tillett
Citizen Member

Daniel S. Timberlake
Director of the Department of Planning & Budget

Glen S. Tittermary
Director, Joint Legislative Audit & Review Commission

Robert P. Vaughan
Staff Director, House Appropriations Committee

David A. VonMoll
State Comptroller

Report of the Debt Capacity Advisory Committee
December 17, 2010

Background and Context

Concern over the Commonwealth's increased use of debt prompted Governor Wilder to issue Executive Order 38 (1991) establishing the Debt Capacity Advisory Committee (the "Committee" or "DCAC"). The DCAC was subsequently codified in Section 2.2-2712 of the Code of Virginia. The Committee was initially comprised of the Secretary of Finance, the State Treasurer, the Auditor of Public Accounts, the Director of Planning and Budget, the Director of the Joint Legislative Audit and Review Commission, and two citizen members appointed by the Governor. Legislation enacted in 2010 added three additional members to the Committee: the staff directors of the Senate Finance and House Appropriations Committees, and the State Comptroller. The Secretary of Finance serves as Chairman.

The Committee is vested with the power and duty to annually review the size and condition of the Commonwealth's tax-supported debt and to submit to the Governor and the General Assembly, by January 1 each year, an estimate of the maximum amount of new tax-supported debt that prudently may be authorized for the next biennium. The Committee's recommendations must consider the amount of tax-supported debt that will be outstanding, and the projected debt service requirements over the following nine fiscal years. The Committee must also review annually the amount and condition of obligations for which the Commonwealth has a contingent or limited liability, or for which the Commonwealth is permitted to replenish reserve funds if deficiencies occur (i.e., "Moral Obligation" debt).

Control of debt burden is one of several key factors evaluated by rating agencies in their assessment of a state's credit quality. Other factors include: economic vitality and diversity, fiscal performance and flexibility, and administrative capabilities of government. The Commonwealth's triple-A bond rating, which it has held since 1938, helps ensure access to the capital markets at the lowest borrowing cost. But the ability to take on additional debt while maintaining the triple-A ratings is limited, because higher debt service payment (a fixed expense) result in less flexibility to respond to economic cycles and address other budgetary needs. However, because it is viewed in concert with many other variables, there is no precise point at which increased debt levels result in a lower bond rating.

In 1991, after consideration of various alternatives to assess capacity, the Committee decided upon a measure based on tax-supported debt service as a percent of revenues. This measure provides the most direct comparison of the state's obligations to the resources available. Also, policymakers control and may influence both variables that determine this ratio. In addition, measuring what portion of the State's resources is committed to debt-related fixed costs, provides a measure of the State's budgetary flexibility and its ability to respond to economic downturns.

The target level selected by the Committee was five percent (5%) – that is, that debt service on tax-supported debt obligations not exceed 5% of blended revenues. This measure is intended to ensure that annual debt service payments do not consume so much of the state's annual operating budget as to hinder the Commonwealth's ability to provide core government services. This measure has been endorsed by the DCAC in each year since.

It is important to note that maintaining debt service at less than 5% of revenues is merely a benchmark of affordability. It does not ensure the ready availability of monies for annual debt service payments. Once bonds have been issued, the need to appropriate annual debt service may crowd other budgetary needs.

2009 Report of the DCAC

In the December 18, 2009 Report to the Governor and the General Assembly, the DCAC for the first time reported that there would be no additional debt capacity for the next two years. Based on the Committee's model, and the 2009 Official General Fund Revenue Forecast, there would be no additional debt capacity until 2014. This unprecedented finding resulted from (i) a precipitous decline in Virginia's actual and forecast revenues resulting from a nationwide economic downturn, and (ii) several recent years of significant bonded debt authorizations.

Recognizing that the lack of borrowing capacity and the perceived inability of the Commonwealth to address important capital needs may itself be viewed as a credit weakness, the DCAC requested a study by staff to help determine if the 5% ratio is still the best way to measure the Commonwealth's capacity, if the Committee should continue to rely on a single ratio tied to revenues, and how results can be smoothed to facilitate capital planning and avoid dramatic changes in capacity, particularly in times of extraordinary fluctuations in revenues. Staff from the House Appropriations Committee and the Senate Finance Committee assisted with the study.

2010 Debt Capacity Study

In September 2010 the draft study was presented to the DCAC, and on November 30, 2010, the Committee, by majority vote, adopted several changes to the debt capacity model. The Committee considered various alternatives, including changing the 5% measure, the use of other measures (e.g., debt per capita) to assess capacity, as well as changes to the treatment of transportation debt in the model. Ultimately, the primary changes adopted by the Committee were the (i) inclusion in the model of the .25% sales tax enacted in 2004 and certain recurring transfers to the general fund from non-general funds, (ii) the reduction of debt service carried in the model for amounts expected to be paid from non-general fund sources, (iii) a change to the interest rate proxy used to estimate the debt service on future borrowings, and (iv) using a ten-year average capacity to arrive at the Committee's recommendation rather than basing it solely on the next two year period. This latter recommendation is an effort to smooth the effect of dramatic revenue fluctuations, and to facilitate long-term capital planning. The target measure of annual debt service payments to annual blended revenues remains unchanged at 5%.

Debt Capacity Model

The DCAC Report is based on the concept that resources, not only needs, should guide the Commonwealth's financing programs. It is a tool to enable the Commonwealth to plan the issuance of its future obligations within future resource constraints. The Committee attempts to provide elected officials with information to enable them to balance capital funding needs with maintaining fiscal discipline and budgetary flexibility. The report can thus help develop and implement the capital budget.

The Committee's Debt Capacity Model incorporates Blended Revenues from the Official Revenue Forecast, and compares those forecast revenues to the (i) the scheduled debt service payments on all outstanding tax-supported debt obligations, plus (ii) estimates of the debt service payment on all currently authorized, but unissued tax-supported debt obligations. From this, the remaining capacity to pay debt service, while not exceeding the 5% debt service to revenues measure, is calculated.

Blended Revenues are comprised of general fund revenues, state revenues in the Transportation Trust Fund (TTF), and certain non-general fund transfers including ABC profits. Beginning with the 2010 Report, Blended Revenues also include the .25% sales tax enacted in 2004 and certain recurring non-general fund Appropriation Act transfers.

Tax-supported debt in the model includes general obligation bonds (excluding those general obligation bonds issued pursuant to Article X, Section 9(c) of the Constitution of Virginia for which debt service is paid from project revenues), debt secured by the TTF, obligations issued by the Virginia Public Building Authority and/or Virginia College Building Authority that are repaid from general fund appropriations, obligations payable under regional jail reimbursement agreements, bonded capital lease payments paid from a general fund appropriation, and other capital leases and installment purchases.

The impact of authorized but not yet issued bond programs on future operating budgets is an important element of debt management and assessing debt capacity. Accordingly, estimates for those programs are included in the debt capacity calculations. In most cases these estimates are based on draw schedules compiled by the Department of Planning and Budget or obtained from agencies on their authorized projects.

2010 Debt Capacity Recommendations

The Debt Capacity Calculations are attached as Exhibit A. Using the revised assumptions and calculations approved in 2010, the Committee estimates that an additional $363 million in debt could be authorized and issued in each 2011 and 2012. The amount is based on an average annual capacity over the ten years of the model. This amount will cause projections of debt service as a percent of blended revenues to exceed five percent in some years and be below five percent in other years, resulting in average debt service to revenues under five percent over the ten-year model horizon. The Committee believes this achieves the goal of smoothing the effect of large revenue fluctuations and provides better long-term capital planning.

Other Recommendations

a) The Committee reiterated recommendations included in past reports for the General Assembly and the Governor to rescind any bond authorizations for projects that are not likely to be issued.
b) The Committee expressed its continued support of the use of traditional financing methods for state projects such as those offered through the issuance of general obligation bonds, or appropriation-supported programs through the VCBA or the VPBA, since capital lease and other conduit borrowings typically result in higher financing costs, and are ultimately still viewed as tax-supported debt.

Report of the Debt Capacity Advisory Committee
December 17, 2010

Review of Tax-Supported Debt

General Fund Supported Debt

The State issues two types of tax-supported debt: General Obligation ("GO") Bonds and various kinds of appropriation-supported obligations, or non-GO debt. GO Bonds are secured by the full faith, credit and taxing power of the Commonwealth. Such debt is usually considered to be the highest quality of all the various types of debt or debt-like instruments and usually carries the highest credit rating. Several factors contribute to the high rating including the legal protections inherent in constitutionally permitted debt, investor confidence in the pledge of the full faith and credit of the State and the presumption of the availability of the government's full resources. GO bonds are generally the most transparent of the various types of State debt obligations and typically carry the lowest interest cost.

Article X, Section 9(c) of the Constitution provides for the issuance of GO debt that is self-supporting (e.g., through tolls, dormitory fees, etc.). These bonds do not require voter approval, but do require a two-thirds majority approval by each house of the General Assembly. They also require the Governor to opine that net project revenues will be sufficient to pay debt service on the bonds. 9(c) debt is considered tax-supported debt for financial reporting purposes, however it is not included in the debt capacity model. Only if the net revenues prove to be insufficient to service the debt will that debt be incorporated in the model. An insufficiency in net revenues has never occurred.

Commonwealth appropriation-supported debt, which includes bonded debt as well as certain capital lease and installment purchase obligations, may be approved by the General Assembly. Principal and interest payments are made from annual debt service appropriations from the general fund or the TTF. These bonds are rated slightly lower than Virginia's General Obligation "GO" bonds and typically carry a higher interest rate, which increases carrying cost of the debt. Depending upon market conditions, the credit quality and structure, interest rates on appropriation-supported debt range from 5 to 20 basis points higher than comparable GO bonds. The Commonwealth has increasingly relied on the use of appropriation-supported debt (e.g., Virginia College Building Authority and Virginia Public Building Authority) to provide financing for capital projects.

Transportation Debt

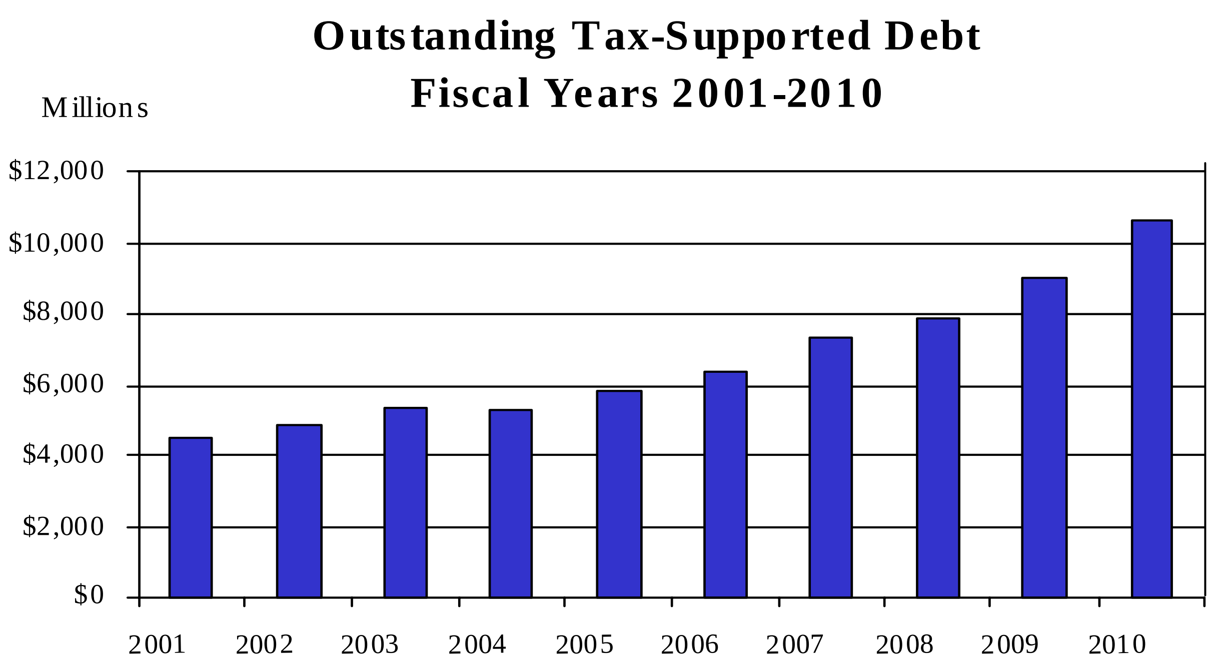
The rating agencies view all debt supported by state-wide, generally applied taxes and/or user fees to be "Tax-Supported Debt". The Transportation Trust Fund (TTF), which is funded primarily from additional revenues generated by increases in the retail sales and use tax, motor fuels tax and motor vehicle related taxes and fees effected by the 1986 Special Session Acts and designated for deposit in the TTF, is included in the Model. Accordingly, Transportation and Port Authority debt repaid from the TTF is considered tax-supported debt for purposes of the Commonwealth debt capacity analysis. Not included in the Debt Capacity Model are highway maintenance and operating revenues (HMO), federal revenues, and debt related to Federal Revenue Anticipation Notes (FRANS) paid from federal transportation revenues. Over time, additional revenues were added to the TTF to pay the debt service allocable to a particular program (e.g., one-third of the insurance license tax was added to pay debt service on $3 billion in Capital Projects Revenue (CPR) Bonds authorized in 2007).

Transportation bonds have been authorized and issued with a pledge that other available amounts, including the General Fund, may be appropriated for their repayment. Since repayment is not limited solely to the TTF (though in practice, payments are made from the TTF), these bonds are viewed by ratings agencies the same as other appropriation-supported obligations of the Commonwealth. In other words, the strength of the Commonwealth appropriation pledge, and depth of resources for repayment, may result in a higher rating than if secured by the TTF alone.

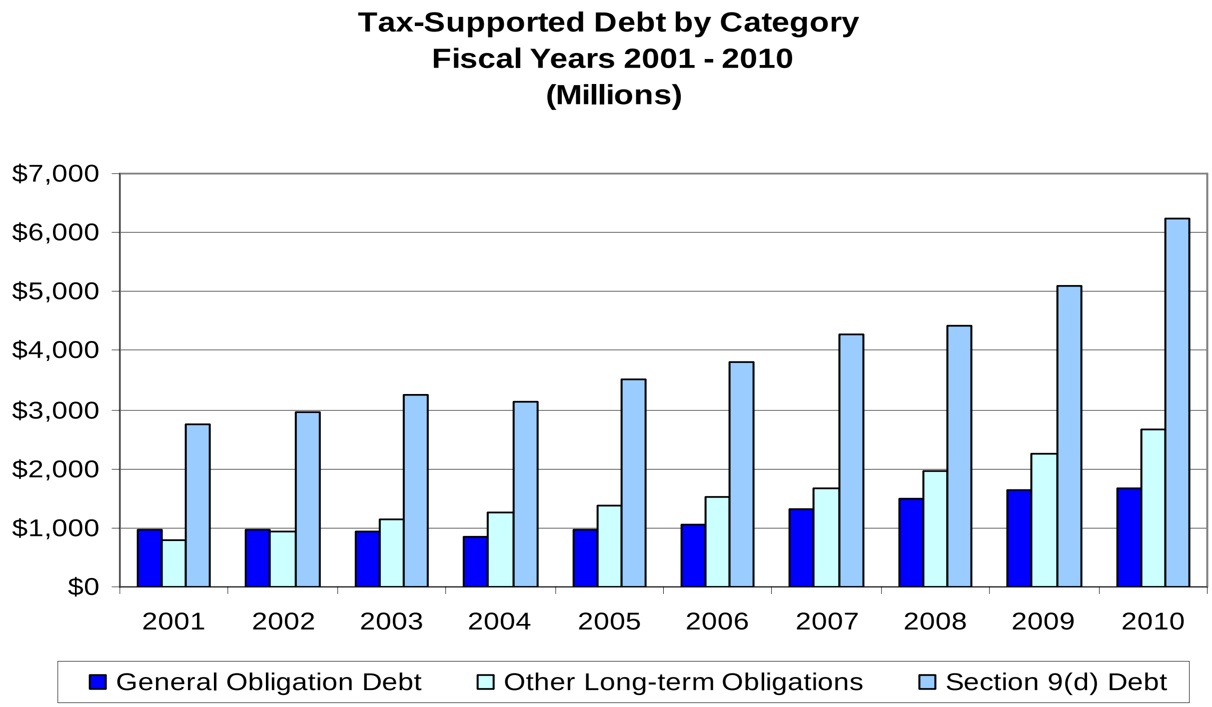
The CTB has issued bonds repaid from the TTF for construction projects involving U. S. Route 28, the U.S. Route 58 Corridor Development Program, the Northern Virginia Transportation District Program, the Oak Grove Connector in Chesapeake, and most recently, for the CPR Bonds approved by the General Assembly in 2007. Currently, debt service on debt paid by the TTF exceeds 5% of TTF revenues. Accordingly, to the extent the 5% measure is exceeded, capacity derived from the general fund is being utilized. This does not mean that general fund dollars are needed to supplement debt service payments on TTF debt. However, it does mean that some debt capacity derived from the general fund is being used to keep overall capacity for all tax-supported debt under the target of 5%.

Trends in Tax-Supported Debt

Outstanding tax-supported debt of the Commonwealth, increased by 135% from 2001 to 2010 with the largest increases occurring between 2007 and 2010. The table below includes long-term obligations such as pension liabilities, other post-employment benefits (OPEB) and compensated absences. These obligations are generally evaluated by rating agencies as part of an issuer's overall debt profile, but are not part of their calculations of debt ratios. Accordingly, they are not included in the Commonwealth's debt capacity calculation.



Investment declines and budget pressures have caused the average funded ratio for state pension plans nationally to decline. Nationwide, OPEBs are often funded on a pay-as-you-go basis rather than at their actuarially accrued liability. These obligations are expected to place increased pressures on state budgets, and rating agencies have signaled an increased focus on this area. The previous chart provides a historical perspective on the Commonwealth's tax-supported debt, including these other obligations.



The chart above shows outstanding tax-supported debt in three major categories: GO bonds, debt obligations incurred pursuant to Article X, Section 9(d) of the Virginia Constitution (i.e., non-general obligation debt), and other long-term obligations, which includes pension and OPEB.

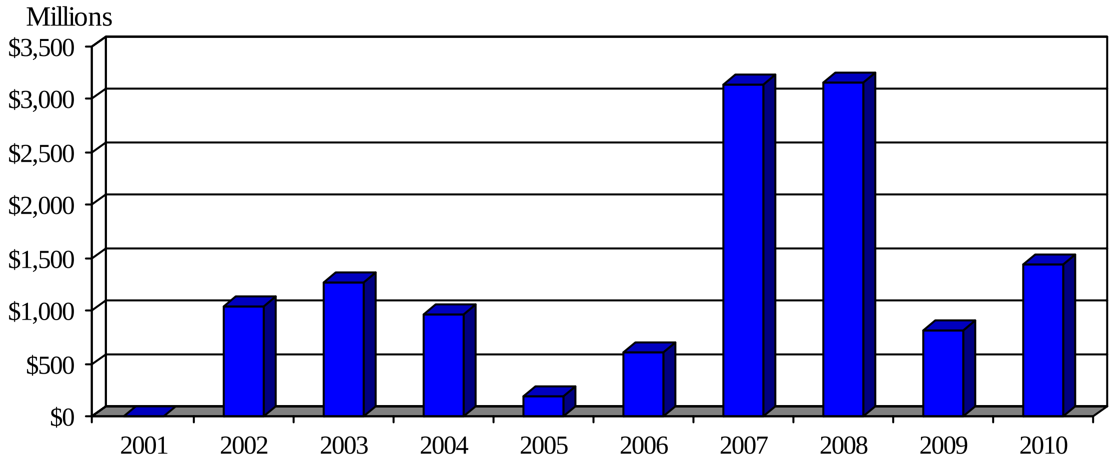
General obligation debt, which had a 2010 balance outstanding of $1.68 billion, has increased 74% over the ten-year period. This is the result of a $1 billion general obligation bond referendum approved by the voters in 2002. Bonds from 2002 authorization were issued incrementally as needed, with the final issue occurring during fiscal year 2010. Absent additional authorizations, this category will decline in the coming years.

Section 9(d) debt includes tax-supported bonds issued by the Virginia College Building Authority (VCBA), the Virginia Public Building Authority (VPBA), the CTB, and certain obligations of the Virginia Port Authority. It also includes bonded capital lease obligations, other long-term capital leases and installment purchases, and regional jail agreements. This category has shown the most significant growth over the period. Total outstanding at June 30, 2010 was $6.2 billion, versus $2.8 billion in 2001. This can be largely attributed to authorizations for VPBA and VCBA bonds in 2003, 2008 and 2009.

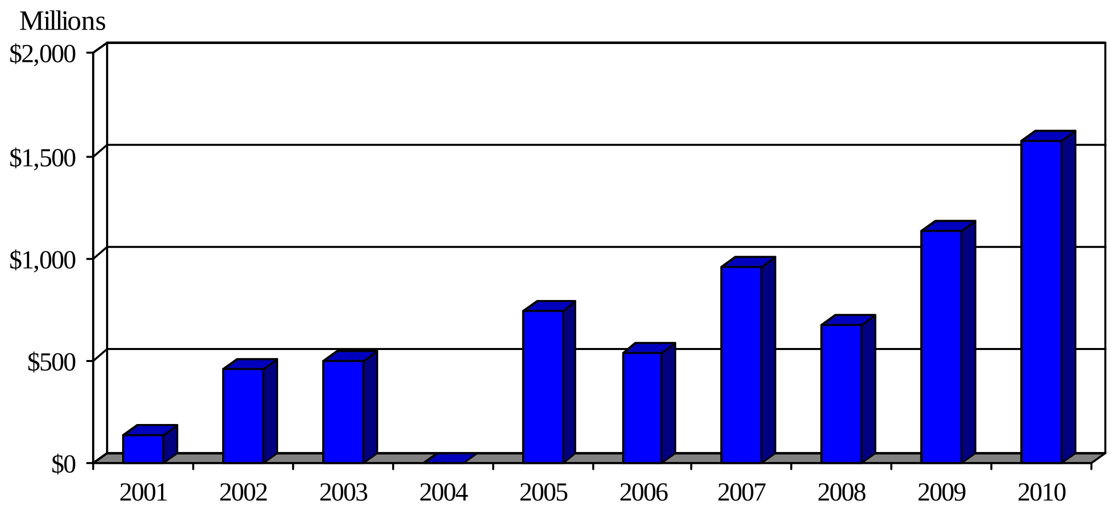
Other long-term obligations have also increased steadily, growing from $.79 billion in 2001 to $2.7 billion in 2010 – an increase of 345%. This growth is due in part to the required inclusion of OPEB obligations beginning in 2008.

The following two charts illustrate the amounts of tax-supported debt authorized and issued from years 2001 – 2010. The 2007 authorization amount includes $3 billion in transportation bonds, and the 2008 authorization was primarily for the VPBA and VCBA programs.

Tax-Supported Debt Authorizations
Fiscal Years 2001-2010



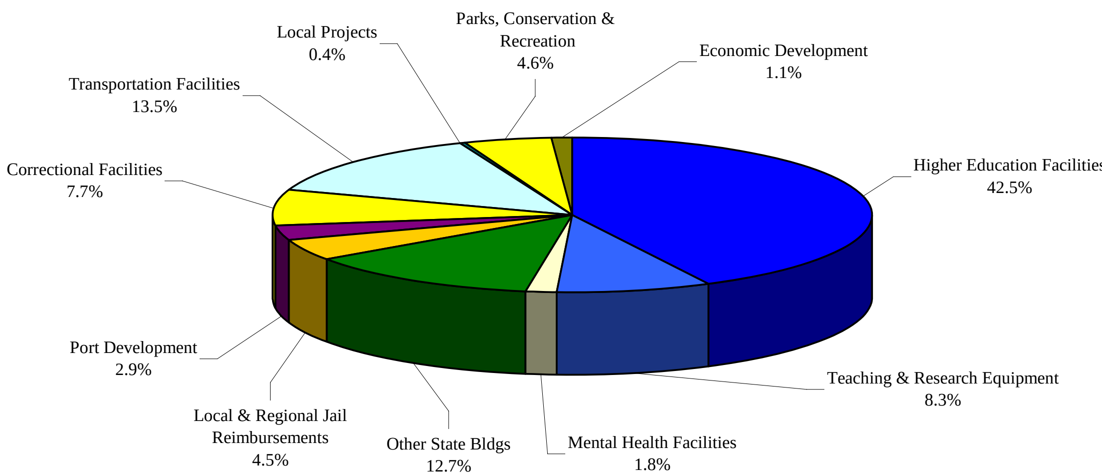
Tax Supported Debt Issued
Fiscal Years 2001-2010



Uses of Outstanding Tax-Supported Debt

The following chart illustrates the uses for which the Commonwealth has authorized and issued tax-supported debt over the last ten years. Although debt has been used to finance many important state projects, over fifty percent (50%) has been used for capital facilities, and teaching and research equipment at state institutions of higher education. Transportation projects paid from the TTF is the next highest category at 12.6%. (Note: transportation projects financed with Federal Revenue Anticipation Notes are not considered tax-supported debt.)

Uses of New Tax-Supported Debt Issued*
FY 2001 - FY 2010

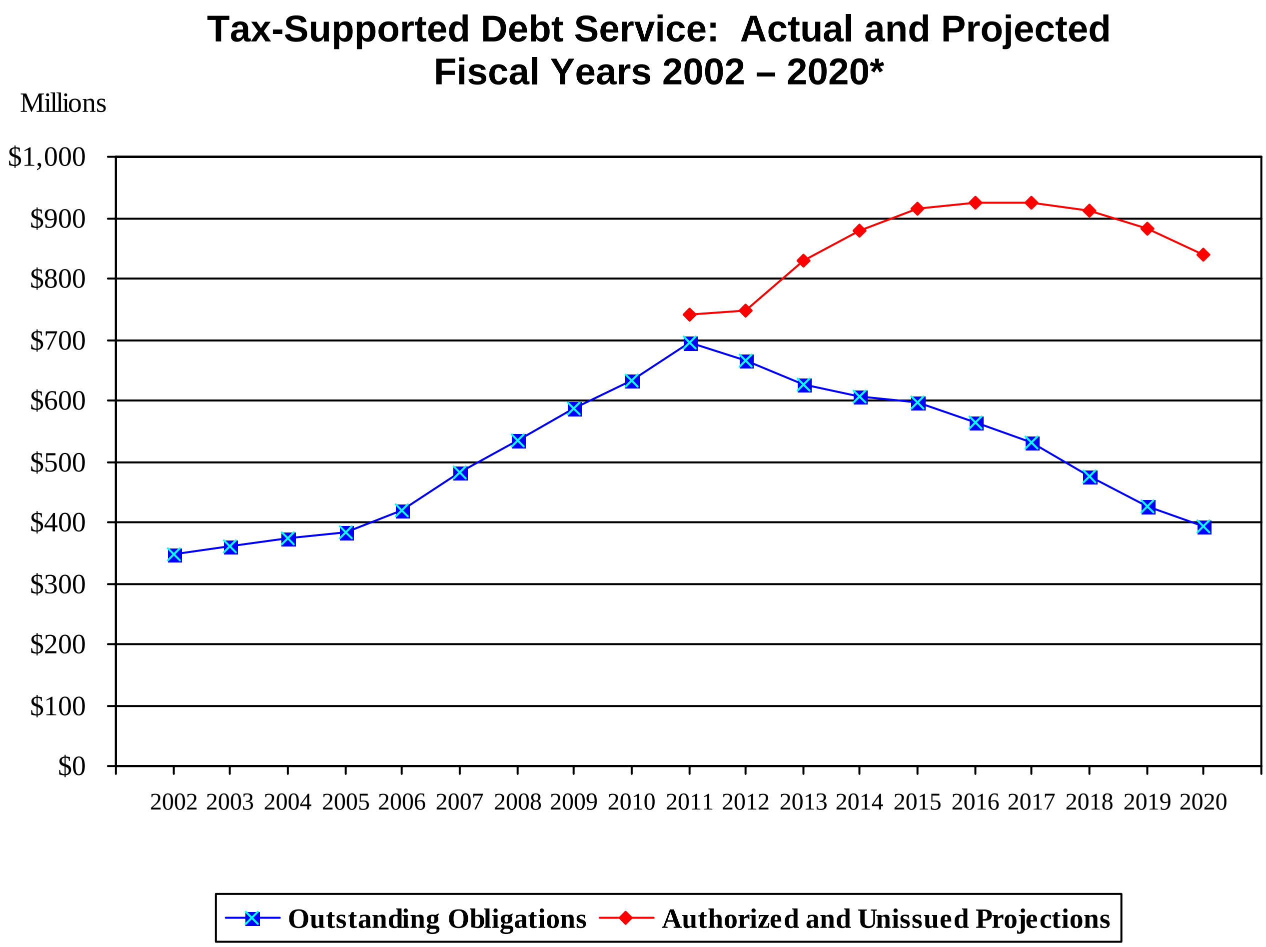


Ten-year Total = $6.7 Billion

*Does not include refunding bonds.

Debt Service

Amounts paid on annual debt service payments has increased, both on an absolute basis and as a percentage of Blended Revenues. This trend is expected to continue, as the amount of outstanding debt increases. Projected debt service, incorporating the debt service on all currently authorized but unissued amounts, is illustrated below.



* Assumes debt is authorized and issued in future periods in accordance with the Model's current assumptions. Past data includes lease revenue bonds issued by the Virginia Biotech Research Park Authority, Innovative Technology Authority and Newport News Industrial Development Authority. Does not include other capital leases, installment purchase or regional jail reimbursement agreement payments.

Review of State Credit Ratings and Comparative Ratios

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis going forward. As a barometer of financial stress, credit ratings are an important factor in the public credit markets and can influence interest rates a borrower must pay.

In October 2010, the Commonwealth's general obligation bond ratings were affirmed at Aaa (Moody's), AAA (S&P) and AAA (Fitch), all with a "stable" outlook. Ratings on the Commonwealth's appropriation-supported programs are "one notch" off the general obligation rating at Aa1 (Moody's), AA+ (S&P) and AA+ (Fitch).

The October 2010 ratings reports noted:

"The commonwealth's 'AAA' rating reflects its substantial economic resources, conservative approach to financial operations, which include periodic revenue forecast updates, and lower-moderate debt levels." Fitch October 8, 2010.

Moody's sites as credit strengths: "Long standing history of conservative fiscal management; A diverse local economy that has slowed significantly but still fares better than the nation, A low but growing debt burden that is controlled through a debt affordability model." Moody's October 1, 2010

"The GO rating reflects our view of the commonwealth's: Strong and broad-based economy which in the past decade has grown at a faster pace than the national average; Good financial position with sufficient reserves; Long history of proactive and conservative financial management; and Manageable debt burden." Standard & Poor's October 13, 2010

In its *2010 State Debt Medians Report* ("Moody's Medians"), Moody's notes that overall state tax-supported debt increased by 10.3% in 2009. Nationwide, median net tax-supported debt increased by 8.1% to $936 from $865, while net tax-supported debt as a percentage of personal income remained steady at 2.5%.

Increased issuance in calendar year 2009 is attributed to several factors including:

- Pent up demand following the 2008 market disruption;
- Introduction of Build America Bonds through the American Recovery and Reinvestment Act of 2009;
- The need for budget relief as a result of the national recession; and
- A low interest rate environment.

The report also notes,
"Some states have exhausted the debt issuing capacity permitted by their debt policies. The majority of states have a debt capacity tool in place to monitor leverage. These policies typically measure debt capacity in terms of debt service as a percent of general fund revenues. As state revenues have declined, debt capacity has also declined."

The following tables illustrate how Virginia compares to other triple-A states.

Report of the Debt Capacity Advisory Committee
December 17, 2010

AAA/Aaa/AAA STATE DEBT BURDENS FROM 2001-2010

Net Tax-Supported Debt per Capita (1)(2)

	2010 Ranking	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Delaware	6	$2,489	$2,128	$2,002	$1,998	$1,845	$1,865	$1,800	$1,599	$1,650	$1,616
Maryland	14	1,608	1,507	1,297	1,171	1,169	1,064	1,077	977	879	819
Georgia	21	1,120	984	954	916	784	803	827	802	804	679
North Carolina *	32	765	832	898	728	804 *	682 *	556 *	429 *	375	340
VIRGINIA	**29**	**895**	**782**	**764**	**692**	**601**	**589**	**546**	**546**	**566**	**537**
Missouri	31	780	670	675	613	496	449	461	368	347	288
Utah	24	957	447	542	621	707	792	846	682	708	634
Iowa*	49	73 *	79 *	98 *	104 *	110 *	130 *	139 *	156 *	166 *	89
Median All States		936	865	889	787	754	703	701	606	573	820
AAA Median		926	807	831	710	746	737	692	614	637	586
AAA Average		1,086	929	904	855	815	797	782	695	687	625

** States were not triple triple A during entire 2001-2010 period.*

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

(2) Year refers to prior calendar year-end.

Source: Moody's Medians

Net Tax-Supported Debt as Percent of Personal Income (2) (3)

	2010 Ranking	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Delaware	6	6.2 %	5.4 %	5.2 %	5.5 %	5.3 %	5.5 %	5.6 %	4.9 %	5.3 %	5.5 %
Maryland	18	3.4	3.3	3.0	2.8	3.0	2.9	3.0	2.7	2.6	2.6
Georgia	19	3.3	3.0	3.0	3.0	2.7	2.8	2.9	2.8	2.9	2.6
North Carolina*	31	2.3	2.5	2.8	2.4	2.8 *	2.5 *	2.0 *	1.5 *	1.4	1.4
VIRGINIA	**35**	**2.1**	**1.9**	**1.9**	**1.8**	**1.7**	**1.8**	**1.7**	**1.7**	**1.8**	**1.9**
Missouri	33	2.2	2.0	2.1	1.9	1.6	1.5	1.6	1.3	1.3	1.1
Utah	21	3.2	1.5	1.9	2.3	2.7	3.2	3.5	2.8	3.0	2.8
Iowa*	48	0.2 *	0.2 *	0.3 *	0.3 *	0.4 *	0.5 *	0.5 *	0.6 *	0.6 *	0.4
Median All States		2.5 %	2.5 %	2.6 %	2.4 %	2.5 %	2.4 %	2.4 %	2.2 %	2.3 %	2.1 %
AAA Median		2.8 %	2.3 %	2.5 %	2.4 %	2.7 %	2.7 %	2.5 %	2.2 %	2.2 %	2.3 %
AAA Average		2.9 %	2.5 %	2.5 %	2.5 %	2.5 %	2.6 %	2.6 %	2.3 %	2.4 %	2.3 %

** States were not triple triple during entire 2001-2010 period.*

(2) Year refers to prior calendar year-end.

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

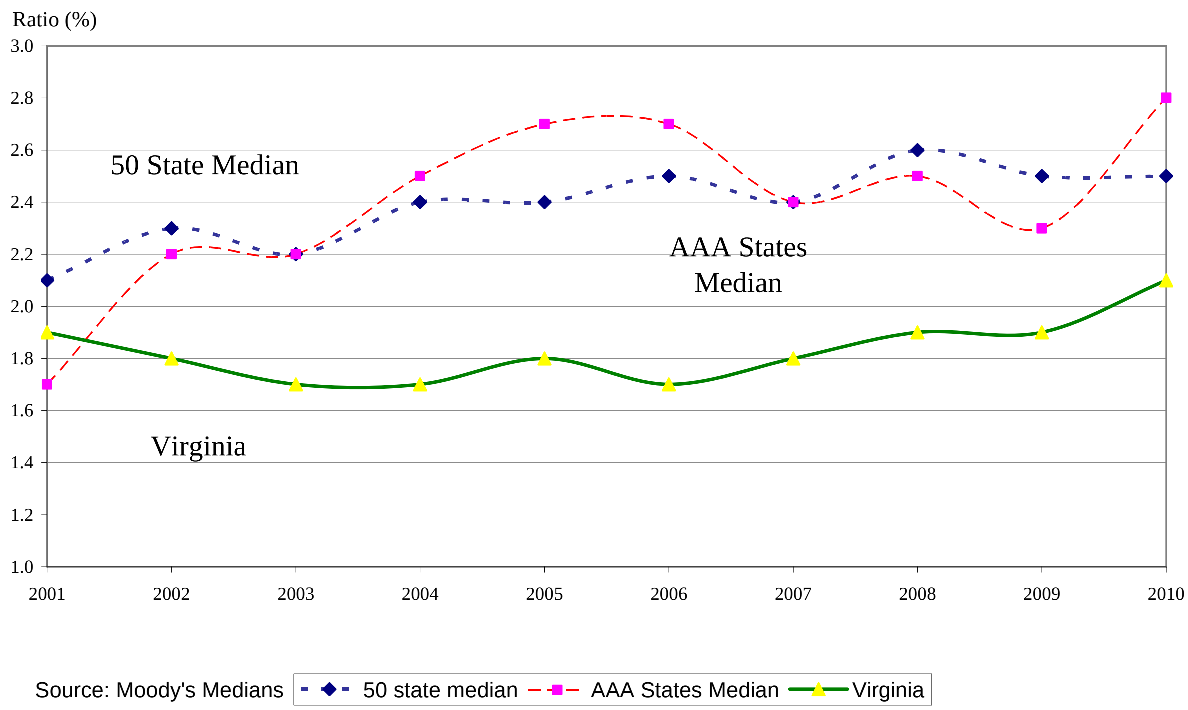
Source: Moody's Medians

While these rankings are useful for comparison purposes, it is important to note that many other factors contribute to a state's overall rating. For example, while ratios for Delaware appears high compared to other triple-A states, a statutory requirement for the rapid amortization of debt mitigates the effect of the higher debt levels.

Moody's also ranks the states in terms of total tax supported debt. California is ranked first at $87.3 billion, and Nebraska at $27.0 million is ranked fiftieth. Virginia is ranked eighteenth with $7.1 billion outstanding.

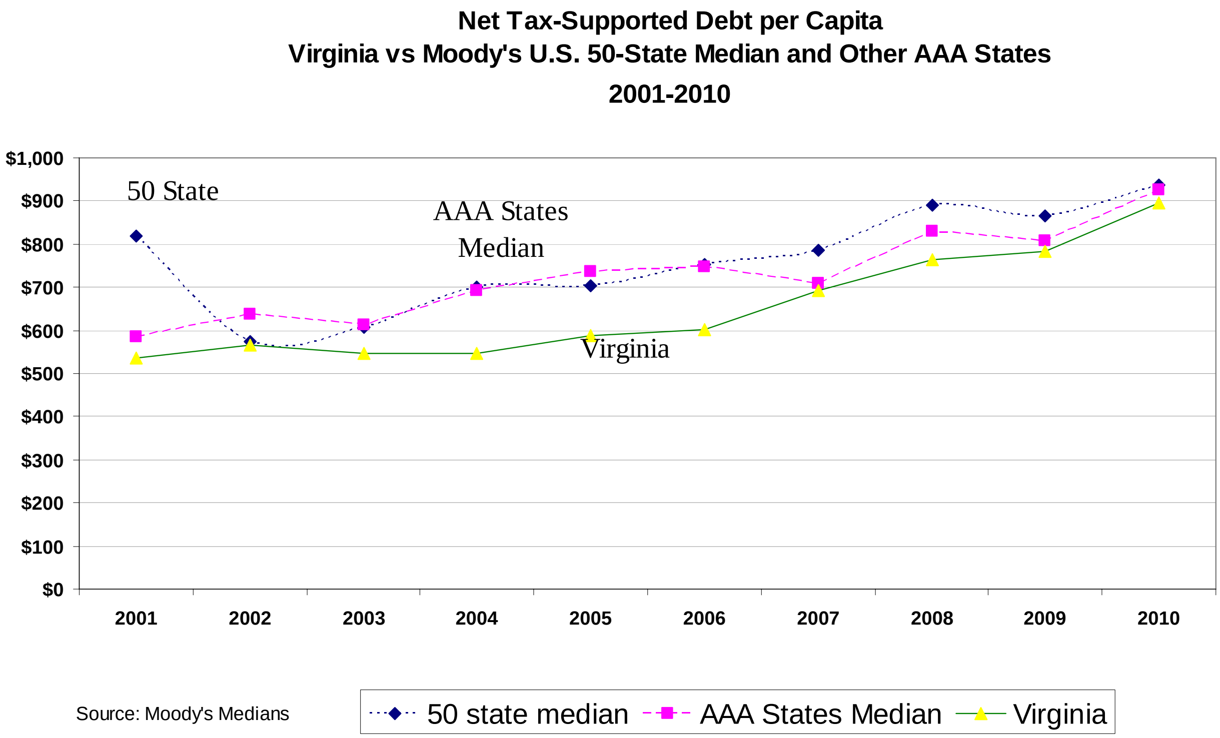
The following chart shows how Virginia's debt as a percentage of personal income compares with the median of all states and other triple-A states. Virginia is lower than the median for all 50 states and for the other triple-A states.

Net Tax-Supported Debt As Percentage of Personal Income
Virginia vs Moody's U.S. 50-State Median and Other AAA States
2001 - 2010



Source: Moody's Medians

Likewise, the chart below shows how Virginia's debt per capita compares with the median of all states and other triple-A states. Again, Virginia is lower than the median for all 50 states and for the other triple-A states.



Appendix A

Debt Capacity Calculation, Sensitivity Analysis and Moral Obligation Update

December 17, 2010

Debt Capacity Model

Virginia's Debt Capacity Measure:

- **Calculation:**
  Tax-Supported Debt Service < 5% of Blended Revenues.
- **Recommendation:**
  Expressed in terms of a ten year average.

Model Characteristics:

- Covers a 10-year issuance period.
- Incorporates currently authorized but unissued debt.
- Uses Blended Revenues from Official Forecast.

Model Assumption:

- **Term and structure:**
  - 20-year bonds.
  - Interest rate based on the average of the last twelve quarters of The Bond Buyer 11 Bond Index for GO debt (4.36%) plus 25 basis points for 9(d) debt (4.61%).
  - Level debt service payments (except 9(b) General Obligation debt).
  - 9(b) General Obligation debt is amortized on a level principal basis.

Model Includes:

- **Blended Revenues from Official Forecast:**
  - General fund revenues, state revenues in Transportation Trust Fund, transfers of ABC profits and certain recurring non-general fund transfers.
  - Actual debt service on all issued tax-supported debt, including capital leases, installment purchases and regional jail reimbursement agreements.
  - Debt service on authorized but unissued tax-supported debt.

Outstanding Tax-supported Debt as Determined by the DCAC includes:

- General obligation bonds (Section 9(a) and 9(b)). Self-supporting 9(c) projects are not included.
- Obligations issued by the Commonwealth Transportation Board or Virginia Port Authority that are secured 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 or regional jail authorities.
- 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 derived from payments received from the Commonwealth on a capital lease.
- 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.

Authorized but Unissued Tax-supported Debt Included in the DCAC Model:

- Must be authorized by an Act of the General Assembly with no contingency for subsequent General Assembly approval.

Moral Obligation Debt:

- In the event a moral obligation issuer has experienced an event of a default on an underlying revenue stream and 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 a Model scenario showing annual debt capacity including that portion of the moral obligation debt.
- Inclusion of the moral obligation debt in the is in no way intended to bind the Governor or General Assembly to make future appropriations to replenish future draws on the debt service reserve fund(s).
- The subject debt will be removed from the Model once the General Assembly has not appropriated funds to replenish the debt service reserve fund(s).

Currently Authorized Tax-Supported Debt
Issuance Assumptions
(Dollars In Millions)

	9(b)	VPBA	VCBA 21st Century Equipment	VCBA 21st Century Projects	CPR Transportation	NVTD Transportation	Chapter 874	VPA	Total
Authorized & Unissued as of June 30, 2010	$ -	$ 902.5	$ 115.1	$ 1,031.0	$ 2,687.3	$ 24.7	$ 1,264.0	$ 155.0	$ 6,179.7
Issued Jul 1 - Dec 31, 2010		282.8		346.4					$ 629.2
Planned Issuances									
FY 2011	-	207.3	-	-	493.0	-	91.3	-	791.6
FY 2012	-	159.1	112.0	584.6	500.0	-	50.0	70.0	1,475.7
FY 2013	-	138.5		100.0	314.3	-	215.0	85.0	852.8
FY 2014		67.0			300.0	24.7	215.0		606.7
FY 2015-20	-	47.9			1,080.0	-	692.7		1,820.6
Total Planned	-	619.8	112.0	684.6	2,687.4	24.7	1,264.0	155.0	5,547.4
Subtotal Issued & Planned		902.6	112.0	1,031.0	2,687.4	24.7	1,264.0	155.0	6,176.6
Authorized Debt Assumed Unissued	$ -	$ -	$ 3.1	$ -	$ -	$ -	$ -	$ -	$ 3.1

[1] Debt Service is assumed to begin the first year **after** the planned issuance year.

DEBT CAPACITY MODEL

(Dollars in Millions)

December 17, 2010

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = 5.0%

STUDY BASE - (Includes Study Revisions)

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Fiscal Year	**Blended Revenues**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service on Debt Issued**	**Actual Outstanding Debt Service as a % of Revenues**	**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 Amount of Additional Debt that may Be Issued**	**Remaining Capacity to Pay Debt Service**	**Total Debt Service as a % of Revenues**
Actual 2002	11,350.65	567.53	346.22	3.05%	N/A	3.05%	221.31	N/A	N/A	221.31	3.05%
Actual 2003	11,727.41	586.37	362.19	3.09%	N/A	3.09%	224.18	N/A	N/A	224.18	3.09%
Actual 2004	12,761.52	638.08	373.55	2.93%	N/A	2.93%	264.52	N/A	N/A	264.52	2.93%
Actual 2005	15,099.55	754.98	384.50	2.55%	N/A	2.55%	370.48	N/A	N/A	370.48	2.55%
Actual 2006	16,066.10	803.31	419.01	2.61%	N/A	2.61%	384.30	N/A	N/A	384.30	2.61%
Actual 2007	16,847.70	842.39	482.33	2.86%	N/A	2.86%	360.06	N/A	N/A	360.06	2.86%
Actual 2008	17,076.40	853.82	532.95	3.12%	N/A	3.12%	320.87	**N/A**	N/A	320.87	3.12%
Actual 2009	15,680.70	784.04	587.33	3.75%	N/A	3.75%	196.71	**N/A**	N/A	196.71	3.75%
Actual 2010	15,871.20	793.56	633.45	3.99%	N/A	3.99%	160.11	**N/A**	N/A	160.11	3.99%
2011	16,386.60	819.33	693.64	4.23%	105.53	4.88%	20.17	**0.00**	0.000	20.17	4.88%
2012	17,192.53	859.63	666.37	3.88%	139.30	4.69%	53.96	**0.00**	0.000	53.96	4.69%
2013	17,881.30	894.07	627.66	3.51%	258.76	4.96%	7.65	**0.00**	0.000	7.65	4.96%
2014	18,693.10	934.66	605.53	3.24%	328.26	5.00%	0.87	**0.00**	0.000	0.87	5.00%
2015	19,657.60	982.88	595.50	3.03%	373.19	4.93%	14.19	**173.95**	13.202	0.98	4.99%
2016	20,565.90	1,028.30	564.88	2.75%	414.30	4.76%	49.12	**459.72**	48.094	1.03	4.99%
2017	21,517.18	1,075.86	529.58	2.46%	451.77	4.56%	94.51	**597.38**	93.434	1.08	4.99%
2018	22,451.66	1,122.58	477.03	2.12%	489.24	4.30%	156.31	**813.59**	155.184	1.12	4.99%
2019	23,448.25	1,172.41	425.95	1.82%	511.32	4.00%	235.15	**794.74**	215.503	19.65	4.92%
2020	24,490.00	1,224.50	392.55	1.60%	500.96	3.65%	330.99	**794.74**	275.823	55.16	4.77%

10 Year Average: $363.41

Excess Capacity: $726.81

2.0000

[1] Revenues include the actual fiscal year revenues per the Annual Reports of the Comptroller (2002-2005), Actual revenues as reported in official November forecasts presented in years 2006-2009, Standard General Fund Actual and Forecasts December (Dated-12/17/10) Standard Forecast of the General Fund, including 0.25% Sales tax increment adopted in 2004, the Virginia Health Care Fund revenue as permitted by Section 32.1-366 of the Code of Virginia, certain recurring Transfers Per the Appropriation Act, transfers from Alcoholic Beverage Control Board and certain revenues from the Transportation Trust Fund official revenue forecasts as of 12/17/10.

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

[3] Equals the annual payments of principal and interest for outstanding tax-supported debt as of 6/30/10, excluding 9(c) debt, Build America Bond (BAB) interest subsidy, and Non-General Fund portion of debt service paid on certain Virginia College Building Authority (VCBA) Bonds .

[4] Equals actual outstanding debt service as a percentage of revenues, Column [3] / Column [1].

[5] 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 Per Treasury Board Reimbursement Agreements..

[6] Equals annual payments for debt service on debt issued and planned debt issuances, divided by Revenues. Column [3] + Column [5] / Column [1]

[7] Equals the amount of revenue available to pay debt service after principal and interest on all outstanding and all planned issuances of tax-supported debt has been paid. Column [2] - Column [3] -Column [5].

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

[9] Equal to annual amount of principal and interest to be paid on Column [8].

[10] Equals Column [7] minus Column [9].

[11] Equals the sum of all debt service payments divided by Revenues. (Column [3] + Column [5] + Column [9]) / Column [1].

DEBT CAPACITY MODEL

(Dollars in Millions)

December 17, 2010

STUDY BASE- AVERAGE Solution

Debt Capacity Maximum Ratio

Debt Service as a % of Revenue = 5.0%

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
Fiscal Year	**Blended Revenues**	**Base Capacity to Pay Debt Service**	**Annual Payments for Debt Service on Debt Issued**	**Actual Outstanding Debt Service as a % of Revenues**	**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 Amount of Additional Debt that may Be Issued**	**Remaining Capacity to Pay Debt Service**	**Total Debt Service as a % of Revenues**
Actual 2002	11,717.85	585.89	346.22	2.95%	N/A	2.95%	239.67	N/A	N/A	239.67	2.95%
Actual 2003	12,102.51	605.13	362.19	2.99%	N/A	2.99%	242.94	N/A	N/A	242.94	2.99%
Actual 2004	13,169.32	658.47	373.55	2.84%	N/A	2.84%	284.91	N/A	N/A	284.91	2.84%
Actual 2005	15,523.45	776.17	384.50	2.48%	N/A	2.48%	391.67	N/A	N/A	391.67	2.48%
Actual 2006	16,520.10	826.01	419.01	2.54%	N/A	2.54%	407.00	N/A	N/A	407.00	2.54%
Actual 2007	17,282.60	864.13	482.33	2.79%	N/A	2.79%	381.80	N/A	N/A	381.80	2.79%
Actual 2008	17,534.60	876.73	532.95	3.04%	N/A	3.04%	343.78	**N/A**	N/A	343.78	3.04%
Actual 2009	15,680.70	784.04	587.33	3.75%	N/A	3.75%	196.71	**N/A**	N/A	196.71	3.75%
Actual 2010	16,085.70	804.29	633.45	3.94%	N/A	3.94%	170.83	**N/A**	N/A	170.83	3.94%
2011	16,386.60	819.33	693.64	4.23%	105.53	4.88%	20.17	**0.00**	0.000	20.17	4.88%
2012	17,192.53	859.63	666.37	3.88%	139.30	4.69%	53.96	**363.41**	27.582	26.38	4.85%
2013	17,881.30	894.07	627.66	3.51%	258.76	4.96%	7.65	**363.41**	55.164	(47.51)	5.27%
2014	18,693.10	934.66	605.53	3.24%	329.97	5.00%	(0.84)	**363.41**	82.746	(83.59)	5.45%
2015	19,657.60	982.88	595.50	3.03%	373.19	4.93%	14.19	**363.41**	110.328	(96.14)	5.49%
2016	20,565.90	1,028.30	564.88	2.75%	414.30	4.76%	49.12	**363.41**	137.911	(88.79)	5.43%
2017	21,517.18	1,075.86	529.58	2.46%	451.77	4.56%	94.51	**363.41**	165.493	(70.98)	5.33%
2018	22,451.66	1,122.58	477.03	2.12%	489.24	4.30%	156.31	**363.41**	193.075	(36.77)	5.16%
2019	23,448.25	1,172.41	425.95	1.82%	511.32	4.00%	235.15	**363.41**	220.657	14.49	4.94%
2020	24,490.00	1,224.50	392.55	1.60%	500.96	3.65%	330.99	**363.41**	248.239	82.75	4.66%
							Average:	$363.41	Excess Capacity:	$1,090.24	
										3.0000	

The Debt Capacity Model
Column Descriptions

(1) **Blended Revenues** include all general fund revenues, ABC profits transferred to the general fund, state tax revenues in the Transportation Trust Fund, .25% sales tax enacted in 2004 and certain recurring non-general fund transfers.

(2) **Base Capacity to Pay Debt Service** is calculated as 5% of Blended Revenues. [Column 2 = Column 1 x .05]

(3) **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, excluding (i) 9(c) debt, (ii) the subsidized portion of interest on Build America Bonds and (iii) non-general fund portion of debt service paid on certain VCBA bonds.

(4) **Actual Outstanding Debt Service as a % of Revenues** is the percentage of revenues required for payments on outstanding bonds.

(5) **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 to be issued within the ten-year period.

(6) **Actual and Planned 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 as a percentage of Blended Revenues.

(7) **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 7= 2-3-5]

(8) **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 the Base Capacity to pay debt service.

(9) **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.

(10) **Remaining Capacity to Pay Debt Service** is the residual amount derived from the Net Capacity to Pay Debt Service less Debt Service on the Amount of Additional Debt that may be Authorized and Issued. [Column 10=7-9]

(11) **Total Debt Service as a % of Revenues** is the percentage of Blended Revenues used for 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.

Model Solution

- Model solves for the additional annual capacity above and beyond amounts already authorized and assumed issued over the next ten fiscal years at the base capacity to pay debt service (5%), while maintaining two additional years of capacity at the end of the ten-year period.
- This solution results in an average annual capacity of $363 million.
- Accordingly, the Committee finds the additional tax supported debt that may prudently be authorized in each 2011 and 2012 is $363 million.

DEBT CAPACITY MODEL REVENUE DATA
December 2010
(Dollars In Millions)

Fiscal Year	General Fund	Transportation Trust Fund [10]	General Fund Growth	Transportation Trust Fund Growth	ABC Profit Transfer	Total Revenue [7]	Blended Revenue Growth Rate [8]
Actual 2000	10,831.53 (1)	689.78 (3)	11.23% (1)	7.14% (3)	30.20 (1)	11,551.51	10.69%
Actual 2001	11,160.73 (1)	753.29 (3)	3.04% (1)	9.21% (3)	28.10 (1)	11,942.12	3.38%
Actual 2002	10,575.93 (1)	749.33 (4)	-5.24% (1)	-0.53% (4)	25.40 (1)	11,350.65	-4.95%
Actual 2003	10,968.27 (1)	744.94 (4)	3.71% (1)	-0.59% (4)	14.20 (1)	11,727.41	3.32%
Actual 2004	11,945.01 (1)	799.70 (4)	8.91% (1)	7.35% (4)	16.80 (1)	12,761.52	8.82%
Actual 2005	14,228.15 (1)	846.50 (4)	19.11% (1)	5.85% (4)	24.90 (1)	15,099.55	18.32%
Actual 2006	15,123.20 (4)	912.90 (4)	6.29% (4)	7.84% (4)	30.00 (4)	16,066.10	6.40%
Actual 2007	15,851.10 (4)	969.00 (4)	4.81% (4)	6.15% (4)	27.60 (4)	16,847.70	4.86%
Actual 2008	16,071.70 (4)	968.60 (4)	1.39% (4)	-0.04% (4)	36.10 (4)	17,076.40	1.36%
Actual 2009	14,622.60 (4)	1,014.00 (4)	-9.02% (4)	4.69% (4)	44.10 (4)	15,680.70	-8.17%
Actual 2010	14,815.00 (4)	1,006.20 (4)	1.32% (4)	-0.77% (4)	50.00 (4)	15,871.20	1.21%
2011	15,315.70 (2)	1,024.70 (4)	3.38% (2)	1.84% (4)	46.20 (2)	16,386.60	3.25%
2012	16,068.33 (2)	1,076.40 (4)	4.91% (2)	5.05% (4)	47.80 (2)	17,192.53	4.92%
2013	16,719.80 (2)	1,113.20 (4)	4.05% (2)	3.42% (4)	48.30 (2)	17,881.30	4.01%
2014	17,492.20 (2)	1,151.60 (4)	4.62% (2)	3.45% (4)	49.30 (2)	18,693.10	4.54%
2015	18,399.00 (2)	1,209.30 (4)	5.18% (2)	5.01% (4)	49.30 (2)	19,657.60	5.16%
2016	19,262.70 (2)	1,253.90 (4)	4.69% (2)	3.69% (4)	49.30 (2)	20,565.90	4.62%
2017	20,188.90 (2)	1,278.98 (6)	4.81% (2)	2.00% (6)	49.30 (9)	21,517.18	4.63%
2018	21,097.80 (2)	1,304.56 (6)	4.50% (2)	2.00% (6)	49.30 (9)	22,451.66	4.34%
2019	22,068.30 (5)	1,330.65 (6)	4.60% (5)	2.00% (6)	49.30 (9)	23,448.25	4.44%
2020	23,083.44 (5)	1,357.26 (6)	4.60% (5)	2.00% (6)	49.30 (9)	24,490.00	4.44%

(1) Annual Reports of the Comptroller, FY 1997-2005.
(2) December Standard General Fund Forecast for FY 2011-2018, including Virginia Health Care Fund revenue, as permitted by Section 32.1-366 of the Code of Virginia, .0.25% Sales tax (enacted 2004), and certain recurring Transfers per the Appropriation Act.
(3) Department of Motor Vehicles.
(4) Department of Taxation.
(5) Flat growth rate of 4.60% for years 2019-2020 per Department of Taxation.
(6) Flat growth rate of 2.00% for years 2017-2020, per Department of Taxation.
(7) Total Revenue = GF + TTF + ABC.
(8) Blended Revenue Growth Rate = (Current FY Total Revenue / Prior FY Total Revenue) - 1.
(9) Derived from final year estimate per respective December Standard General Fund and Standard Transportation Trust Fund Forecasts, dated December 17, 2010.
(10) Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts or Toll Revenues.

Annual Debt Service Requirements and Other Long-Term Obligations

Outstanding As of June 30, 2010

(Dollars in Thousands)

Fiscal Year Ending June 30	General Obligation Debt 9(b)	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
2011	126,048	567,590	55,132	2,636	47,757	0	799,163
2012	119,318	547,048	55,132	2,636	81,528	0	805,662
2013	115,396	512,260	55,132	2,637	200,990	0	886,414
2014	106,692	498,834	55,132	190	274,651	0	935,499
2015	98,167	497,335	55,132		318,060	173,950	1,142,644
2016	87,293	477,584	55,132		359,164	459,720	1,438,892
2017	76,749	452,828	55,132		396,639	597,380	1,578,728
2018	71,054	405,979	55,132		434,112	813,590	1,779,866
2019	67,703	358,244	55,132		456,183	794,740	1,732,002
2020	65,469	327,081	55,132		445,832	794,740	1,688,254
TOTAL	$933,889	$4,644,782	$551,318	$8,099	$3,014,917	$3,634,120	$12,787,125

<u>The Debt Capacity Model Sensitivity Analysis</u>

2-Year Reserve Excess Capacity Sensitivity

- The Base Model solution provides for average debt capacity of $363 million over the model period, with two years of average capacity, beyond the 10-year model period.
  - If the Model solution is altered to reduce the two years of excess capacity to one year of excess capacity, the resulting debt capacity is $396 million.
  - If the Model solution is altered to reduce the two years of excess capacity beyond the model period to no excess capacity, the resulting average debt capacity is $434 million.

Revenue Sensitivity

- If the Model solution is altered to increase or decrease Blended Revenues, the following <u>incremental</u> average debt capacity changes occur:
  - For each change of $100 million in each and every year, the incremental change is $5.49 million.
  - For each 1% change of revenues in each and every year, the incremental change is $ 12.67 million.

Interest Rate Sensitivity

- If the Model solution is altered to change interest rates, the following changes to average debt capacity occur:
  - Add 100 basis points to base rate, and average capacity decreases to $ 313 million.
  - Subtract 100 basis points from base rate, and average capacity increases to $419 million.

Debt of the Commonwealth
(Dollars in Thousands)

	As of June 30, 2010	As of June 30, 2009
Tax-Supported Debt		
9(b) General Obligation [1]	999,841	1,040,636
9(c) General Obligation - Higher Education	631,275	573,550
9(c) General Obligation - Transportation	28,394	30,358
9(c) General Obligation - Parking Facilities	21,151	6,526
Commonwealth Transportation Board	1,428,918	908,601
Virginia Public Building Authority	2,276,819	2,092,662
Virginia Port Authority	194,287	200,886
Virginia College Building Authority - 21st Century & Equip	1,677,617	1,203,701
Innovative Technology Authority	4,480	5,415
Virginia Biotechnology Research Park Authority	42,650	45,409
Transportation Notes Payable	8,000	8,000
Capital Leases	201,501	216,600
Installment Purchases	214,976	218,202
Regional Jail Reimbursement Agreements	6,445	8,231
Virginia Public Broadcasting Board	2,990	5,830
Virginia Aviation Board	1,623	1,909
Industrial Development Authority Obligations [3]	5,150	10,025
Economic Development Authority Obligations [4]	89,722	93,442
Subtotal Tax-Supported Debt	7,835,839	6,669,983
Tax-Supported Debt Not Included in Capacity Model		
Compensated Absences [2]	559,828	573,904
Pension Liability [2]	1,653,718	1,410,513
OPEB Liability [2]	433,688	239,340
Tax Refund Note [2]	81,278	81,278
Pollution Remediation Liability [2]	4,019	2,472
Other Liabilities [2]	26,041	22,302
Subtotal Tax-Supported Debt Not Included in Capacity Model	$ 2,758,572	$ 2,329,809
Total Tax-Supported Debt	$ 10,594,411	$ 8,999,792

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

[4] Fairfax County Economic Development Authority Joint Venture with VDOT for Camp 30 Project

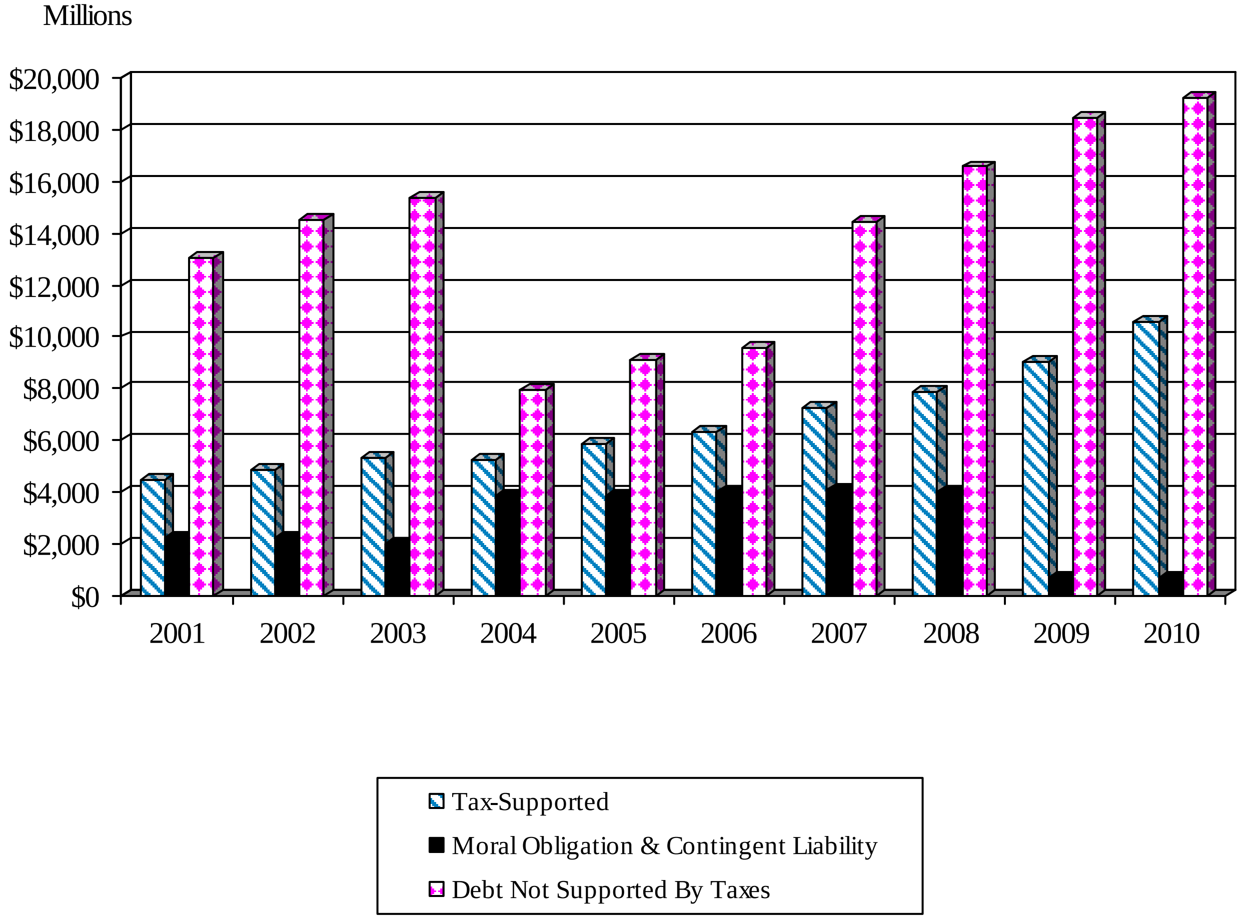
Debt of the Commonwealth
(Dollars in Thousands)

	As of June 30, 2010	As of June 30, 2009
Debt Not Supported By Taxes [1]		
Moral Obligation / Contingent Liability Debt		
Virginia Resources Authority	669,839	726,416
Virginia Housing Development Authority	0	0
Virginia Public School Authority - 1997 Resolution	2,978,790	3,078,000
Virginia Public School Authority - Equipment Technology Notes	168,730	172,000
Total Moral Obligation/Contingent Liability Debt	$ 3,817,359	$ 3,976,416
Other Debt Not Supported By Taxes		
9(d) Higher Education	1,333,083	1,356,659
Virginia College Building Authority - Pooled Bond Program	1,476,645	1,289,525
Virginia College Building Authority - Private College Program	524,645	532,530
Virginia Public School Authority - Stand Alone Program	156,292	161,000
Virginia Housing Development Authority	6,739,603	6,754,384
Virginia Port Authority	288,764	223,541
Hampton Roads Sanitation District	547,318	360,136
Virginia Biotechnology Research Park Authority	1,355	1,565
Virginia Resources Authority	1,915,717	1,740,010
Federal Highway Reimbursement Anticipation Notes	414,319	548,695
Notes Payable	2,034,214	1,649,031
Bond Anticipation Notes	0	0
Other Long-Term Debt	339,946	301,641
Foundations	1,317,122	1,294,063
Pension Liability	26,379	21,368
OPEB Liability	5,779	2,973
Capital Lease Obligations	1,407	1,919
Compensated Absences	9,130	8,955
Installment Purchase Obligations	187	964
Tuition Benefits Payable	2,095,958	1,909,780
Lottery Prizes Payable	250,754	293,165
Total Other Debt Not Supported By Taxes	$ 23,295,976	$ 18,451,904
Grand Total of Tax Supported Debt and Debt Not Supported by Taxes	**$ 33,890,387**	**$ 27,451,696**

Source: Department of the Treasury and Department of Accounts

[1] Not Included In Debt Capacity Model

Outstanding Commonwealth Debt
Fiscal Years 2001-2010



Tax Supported Debt Issued Fiscal Year 2011
Thru December 31, 2010

Issuer	Date Issued	Amount
Commonwealth of Virginia General Obligation Bonds Series 2010A-1, 2010A-2[1]	October 2010	$171,270,000
Virginia College Building Authority, Educational Facilities Revenue Bonds, Series 2010B-1, 2010B-2 (21st Century College and Equipment Program)	October 2010	$346,415,000
Virginia Public Building Authority Public Facilities Revenue and Revenue Refunding Bonds, Series 2010B-1, 2010B-2, and 2010B-3	November 2010	$333,600,000

(1) Self-supporting 9(c) debt not included in model.

Moral Obligation and Contingent Liability Debt

The Committee also reviewed outstanding moral obligation debt and other debt for which the Commonwealth has a contingent or limited liability.

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.

The Virginia Resources Authority ("VRA")is the Commonwealth's only remaining moral obligation debt issuer. The VRA 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, public transportation and airport projects. Due to increased demand for its financing programs, the 2009 General Assembly approved an increase to the Authority's moral obligation debt limit from $900 million to $1.5 billion.

Below are the statutory caps and outstanding amounts:

Issuer	Statutory Limit	Outstanding at June 30, 2010	Available Authorization
Virginia Resources Authority	$1,500,000	$669,839	$830,161
Virginia Housing Development Authority	$1,500,000	$0	$1,500,000
Virginia Public School Authority	$800,000	$0	$800,000
Total	$3,800,000	$669,839	$3,130,161

Dollars in Thousands

Alternative financing programs were initiated by the Virginia Housing Development Authority and the Virginia Public School Authority. Neither of these entities expect to issue additional moral obligation debt.

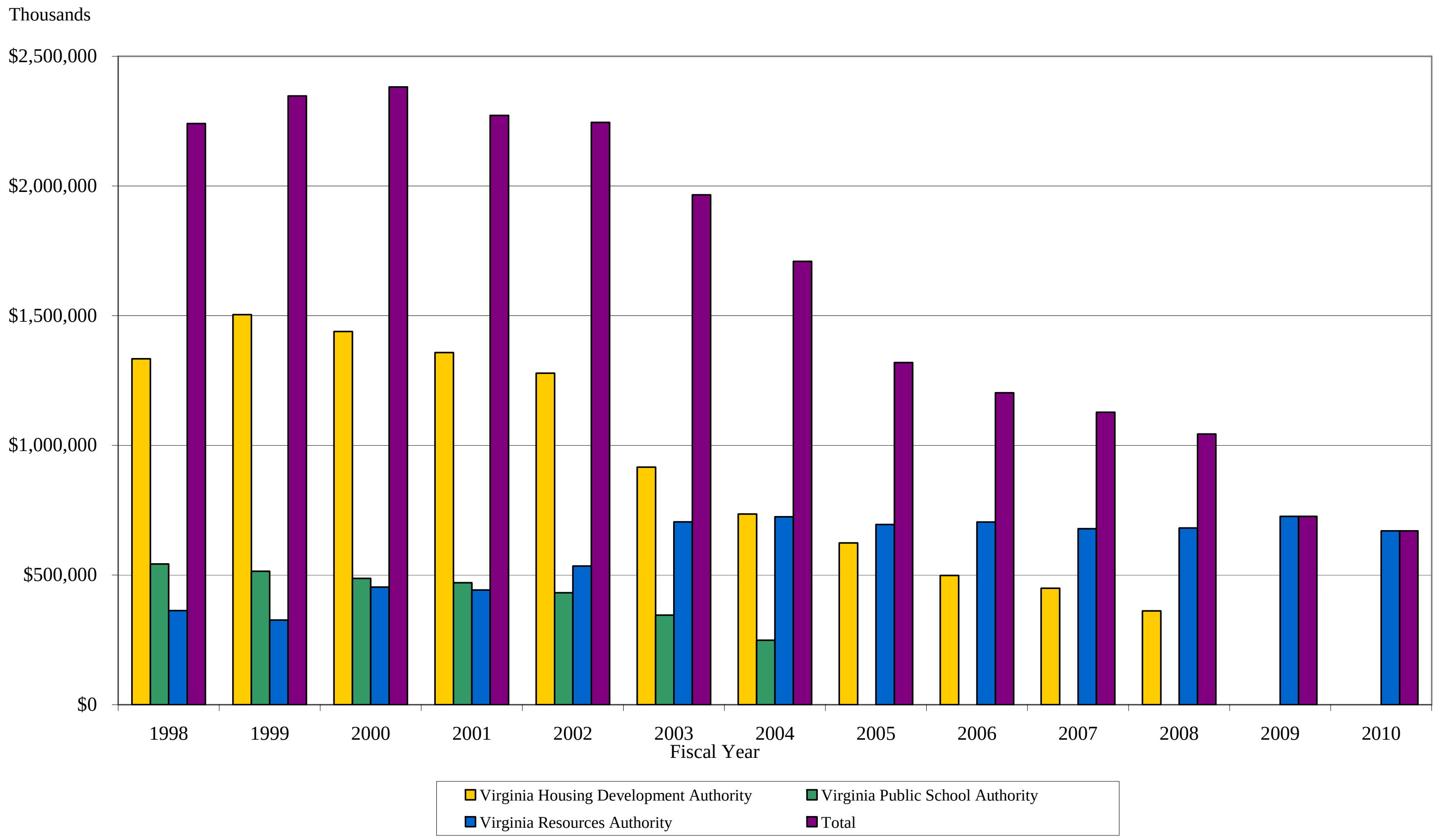
Moral Obligation Debt Sensitivity

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. However, conversion would only occur if the General Assembly appropriated funds to replenish a debt service reserve fund shortfall upon request by a moral obligation issuer. Further, if any such debt were ever converted, it would be only the amount necessary to cure the default of an underlying revenue stream (e.g., a locality participating in a pooled bond issue).

- The current base Model solution provides for average debt capacity of $363 million.

- If the Model solution is altered to assume conversion of the all outstanding moral obligation debt (VRA) as of 6/30/10 to tax-supported debt, the resulting average debt capacity is $ 308 million.

Outstanding Moral Obligation Debt
Fiscal years 1999-2010



Contingent or Limited Liability Debt

The Virginia Public School Authority (VPSA) under its 1997 Resolution, is the only issuer of non-tax-supported debt that utilizes a sum sufficient appropriation ("SSA") as an additional credit enhancement. This represents a contingent liability for the Commonwealth.

- The Virginia Public School Authority had $2.98 billion of 1997 Resolution bonds outstanding as of June 30, 2010.

- The SSA was codified during the 2001 General Assembly session (§22.1-167.3, Code of Virginia) to authorize the use of SSA for certain revenue notes issued by the Virginia Public School Authority under its Educational Technology Program. Notes outstanding as of June 30, 2010 equal $168.73 million.

Sum Sufficient Appropriation 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 6/30/10) to tax-supported debt, the resulting average debt capacity is $120 million.