



# COMMONWEALTH OF VIRGINIA

*Department of the Treasury*

DAVID L. RICHARDSON  
TREASURER OF VIRGINIA

P. O. BOX 1879  
RICHMOND, VA 23218

December 22, 2025

Ms. Laura Wilborn  
Division of Legislative Automated Systems  
Old City Hall  
1001 E. Broad St., Ste. 210  
Richmond, Virginia 23219

*Via E-mail*

Dear Ms. Wilborn:

In accordance with the provisions of Section 2.2-2713 of the Code of Virginia, I hereby submit the annual report for the Debt Capacity Advisory Committee. The attached report provides the Governor and the General Assembly with a non-binding estimate of the maximum amount of new tax-supported debt that prudently may be authorized for fiscal years 2026 and 2027. In addition, the annual report reviews the amount and condition of obligations secured by a moral obligation and contingent liability pledge.

Sincerely,

*Richard F. Rhodemyre IV*

Richard F. Rhodemyre IV  
Public Finance Manager

Enclosure



## ***COMMONWEALTH of VIRGINIA***

Stephen Cummings  
Secretary of Finance

P.O. Box 1475  
Richmond, Virginia 23218

December 18, 2025

The Honorable Glenn Youngkin  
Governor of Virginia  
Patrick Henry Building, 3rd Floor  
Richmond, Virginia 23219

The Honorable Susan Clarke Schaar  
Clerk of the Senate  
Senate of Virginia  
State Capitol, 1000 Bank St.  
Richmond, Virginia 23219

The Honorable G. Paul Nardo  
Clerk of the House of Delegates  
Virginia House of Delegates  
State Capitol, 1000 Bank St.  
Richmond, Virginia 23219

Dear Governor Youngkin, Ms. Schaar, and Mr. Nardo:

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 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 annually review 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 2025.

The Honorable Glenn Youngkin  
The Honorable Susan Clarke Schaar  
The Honorable G. Paul Nardo  
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Based on the debt capacity model, the Committee estimates that up to \$1.49 billion in additional debt could be authorized and issued in each of fiscal years 2026 and 2027. This is the average amount that will allow the projection of debt service as a percentage of blended revenues to remain at or below five-percent during the 10-year model horizon. This solution is based on a number of issuance assumptions contained in the model. Accordingly, if the assumptions change, the resulting capacity will also change.

The 2025 DCAC Model was calculated using the December 2025 Revenue Forecast produced by the Department of Taxation and a Transportation Trust Fund Revenue Forecast produced by the Department of Transportation based on Taxation's December 2025 Commonwealth Transportation Fund Revenue Forecast. As such, the proposed tax policy changes associated with the Governor's biennial budget are accounted for in the Model beginning in fiscal year 2026. Given that the majority of the proposed tax policy changes included in the Governor's proposed budget would result in reductions in revenues, should the proposed tax policy changes not be passed by the Virginia General Assembly, the Commonwealth's debt capacity would increase.

The DCAC Model uses an average of the most recent 12 quarters of Bond Buyer 11 Index yields for AA+ rated GO municipal bonds to estimate the model interest rate for the future issuances of GO bonds, with a 25 basis-point spread added to model future appropriation secured bond issuances. For the 2025 DCAC model, the standard model rate for GO bonds is 4.01% with a model rate for appropriation supported bonds of 4.26%. Given the Commonwealth does not currently have any authorization to issue 9(b) GO bonds, all of the long-term future debt service currently included in the model is projected at the 4.26% appropriation supported model rate.

The Committee acknowledged that the Commonwealth once again entered into fiscal year 2026 in a position of financial strength, with another large surplus in fiscal year 2025 and reserve fund balances near all-time highs. To the extent that there are material revenue or interest rate changes compared to the forecast and the assumed model rate of 4.26%, the Commonwealth's debt capacity could rise or fall in line with these changes. The 2025 DCAC Report includes additional sensitivity analyses in the Appendix that address these scenarios.

In addition to the Commonwealth's existing debt, there is currently \$4.5 billion in previously authorized but yet to be issued tax-supported debt that is anticipated to be issued over the coming years. While this authorized but unissued debt is already factored into the debt capacity model, recent increases in construction costs could result in the need for additional funding sources for previously authorized capital projects. These existing project authorizations should be considered when planning for any additional tax-supported debt authorizations during the budget process. The Committee also recognized that transportation debt service as a percentage of transportation revenues continues to greatly exceed five-percent and is projected to range from 9.8% to 10.2% over the next ten fiscal years, meaning excess capacity generated by general fund revenues is being utilized by transportation debt service to keep the Commonwealth's overall debt service to blended revenues ratio below the five-percent capacity measure.

The Honorable Glenn Youngkin  
The Honorable Susan Clarke Schaar  
The Honorable G. Paul Nardo  
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The attached report provides the Governor and the General Assembly with a basis to assess the impact of future debt authorization and issuance on the Commonwealth's fiscal position and enables informed decision-making on capital spending priorities. The report also provides historical perspective on the Commonwealth's authorization and issuance of tax-supported debt over the last decade. In addition, it contains information on the rating agencies' assessment of the Commonwealth and how we compare to our other highly rated peer states. It should be noted that due to the adoption of structurally balanced budgets, strong reserve fund balances, and the continued adherence to conservative financial practices, the Commonwealth has been viewed positively by the rating agencies, maintaining its triple-AAA status while other nearby states have faced recent negative rating actions as a result of their financial management. As such, the report encourages the continued use of fiscally prudent practices, as failure to follow these practices could result in a negative bond rating action.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Cummings", with a stylized flourish at the end.

Stephen Cummings, Chairman  
Debt Capacity Advisory Committee

Attachment  
CC: Debt Capacity Advisory Committee Members

# Commonwealth of Virginia



## Debt Capacity Advisory Committee

### Report to the Governor and the General Assembly

December 18, 2025

## **Debt Capacity Advisory Committee Members**

The Honorable Stephen Cummings – Chairman  
Secretary of Finance

Scott Adams  
State Comptroller

Harold Greer  
Director, Joint Legislative Audit & Review Commission

Staci Henshaw  
Auditor of Public Accounts

Harold Hughey  
Citizen Member

April Kees  
Staff Director, Senate Finance & Appropriations Committee

Michael Maul  
Director of the Department of Planning & Budget

Anne Oman  
Staff Director, House Appropriations Committee

David Richardson  
State Treasurer

Ronald Tillett  
Citizen Member

# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

### **Background**

Following the Commonwealth's increased use of debt in the 1980's, Governor Wilder issued Executive Order 38 (1991) which established the Debt Capacity Advisory Committee (the "Committee" or "DCAC"). Subsequent to the Executive Order, the DCAC was 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 director of the Senate Finance and Appropriations Committee, the staff director of the House Appropriations Committee, 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<sup>st</sup> of 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 projected debt service requirements over the current fiscal year and 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, and 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: economy, financial management, governance, budgetary and operating performance, and debt and pension liabilities. The Commonwealth's AAA bond rating, which it has held since 1938, facilitates access to the capital markets at the lowest borrowing cost. However, the ability to take on additional debt while maintaining the AAA ratings is not unlimited. Higher debt service payments (a fixed expense) mean less flexibility to respond to economic cycles and address other budgetary needs. Because capacity is viewed with many other variables, there is no precise point at which increased debt levels will result in a lower bond rating.

In 1991, after consideration of various alternatives to assess capacity, the Committee decided on a measure based on tax-supported debt service as a percent of revenues. This measure provides a direct comparison of the state's obligations to the resources available to pay them. Measuring the portion of the state's resources 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 in 1991 was five percent - that is, debt service on tax-supported debt obligations should 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 basic measure has been endorsed by the DCAC in each subsequent year.

# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

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In the wake of the 2008 financial melt-down and the resulting economic downturn, coupled with the increased debt burden of several years of significant bonded debt authorizations, the December 18, 2009 DCAC Report to the Governor and the General Assembly conveyed there was no additional debt capacity. As a result of the findings in the 2009 DCAC Report, the Committee determined that a study should be completed to reevaluate the model and consider ways to smooth dramatic changes in capacity in times of extraordinary revenue fluctuations.

Following the 2010 study, the Committee considered various measures (e.g., debt per capita), as well as changes to the treatment of transportation debt in the model. Ultimately, the changes adopted by the Committee were the (i) inclusion in the model of the 0.25% 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 was 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 remained unchanged at 5%.

It is important to note that maintaining debt service at less than 5% of revenues is merely a benchmark of affordability. Debt service requires annual appropriation, and to the extent debt is authorized and issued, debt service will limit the amounts available for other budgetary needs.

### **Debt Capacity Model**

The DCAC report is a resource that assists Commonwealth leaders with planning the issuance of future obligations within future resource constraints. The Committee's report provides elected officials with information to enable them to balance capital funding needs while maintaining fiscal discipline and budgetary flexibility. The DCAC report can guide decision-makers in the development and implementation of the capital budget. Report recommendations are all based on the Committee's analysis of the Debt Capacity Model results.

The Committee's Debt Capacity Model compares annual Blended Revenues from the Official Revenue Forecast to the (i) scheduled debt service payments on all outstanding tax-supported debt obligations, and (ii) estimates of the debt service payments on all currently authorized but yet to be issued tax-supported debt. A calculation is then made to determine the amount of additional debt that could be authorized and issued without causing total debt service to exceed 5% of the forecasted Blended Revenues.

Blended Revenues are comprised of general fund revenues, certain recurring non-general fund transfers including ABC profits, a relevant portion of sales tax, and non-general fund Appropriation Act transfers, Virginia Health Care Fund revenues, Transportation Trust Fund ("TTF") revenues, and beginning with the 2025 Report, certain dedicated Commonwealth Transportation Fund ("CTF") revenues that are available to pay debt service on related tax-



# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

supported transportation bonds, including the Route 58 Program revenues and Special Structures Program revenues.

Revenue projections and growth rate assumptions are based on the Official December Revenue Forecast as provided by the Department of Taxation, and as such, include the proposed tax policy changes from the Governor’s introduced biennial budget. Therefore, any modifications by the General Assembly to the proposed tax policies in the Governor’s proposed budget would alter revenue projections and impact debt capacity.

Tax-supported debt obligations in the model include general obligation (“GO”) bonds (excluding those GO 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 (“VPBA”) and the Virginia College Building Authority (“VCBA”) that are repaid from general fund appropriations, obligations payable under regional jail reimbursement agreements, and certain portions of long-term leases, long-term subscription-based information technology arrangements (“SBITAs”) and installment purchases that are paid from general fund appropriations.

The impact of debt service related to authorized but not yet issued bond programs on future operating budgets is an important element of debt management and assessing the state’s debt capacity. Accordingly, debt service estimates for those programs are included in the debt capacity calculations.

### **Potential Influencing Factors for Virginia’s Fiscal Position**

Fiscal year 2025 was another strong year financially for the Commonwealth. Individual income tax revenues grew by 7.8% in fiscal year 2025, exceeding the adopted revenues from Chapter 725 of the 2025 Session of the General Assembly by 1.6%, or \$334.4 million. Sales and use tax revenues grew by 2.2% in fiscal year 2025, which was in line with the Chapter 725 forecast. Corporate tax revenues fell 1.5% in fiscal year 2025, exceeding the forecast decline in Chapter 725 by 4.9%, or \$87.1 million. Overall, total general fund revenues (excluding transfers) grew 6.1% in fiscal year 2025 to \$31.2 billion, well ahead of the Chapter 725 revenue forecast of \$30.7 billion, which called for a more modest 4.1% growth in general fund revenues for the year. This resulted in a revenue surplus of \$572 million in fiscal year 2025. The Commonwealth finished fiscal year 2025 with more than \$4.7 billion in combined reserve funds. Through October of fiscal year 2026, general fund revenues are up by 5.5%, or \$508.5 million, as compared to this time in fiscal year 2025, driven mostly by growth in net individual income taxes of 7.5%.

While Virginia has experienced financial success in recent years, there are still a number of factors that could impact the Commonwealth’s fiscal position going forward. Both unemployment and consumer price index (“CPI”) inflation were up slightly in 2025 as compared to 2024, but remained low and stable. Expectations are that CPI inflation will remain closer to a 3% level going forward, while the labor market remains tight, with a low-hire, low-fire environment. While the probability of a potential U.S. recession seems to have receded from this time last year, a slowdown in the

# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

U.S. economy could impact the Commonwealth's financial position. Real U.S. gross domestic product ("GDP") growth was 2.3% in fiscal year 2025, which was down from fiscal year 2024 real GDP growth of 2.8%, but still ahead of the initial fiscal year 2025 forecast of 1.4%. Virginia's economy fared even better, with year-over-year gross state product growth of 2.5%. However, similar to 2024, much of the economic growth in fiscal year 2025 was driven by higher income earners, while lower income earners reduced savings and increased their consumer debt burdens. Beyond the broader economic uncertainties, other factors that could impact the Commonwealth's fiscal position include changes to prevailing interest rates, federal or state policy changes, growing statewide costs related to health and human services and K-12 education, and evolving cyber security risks. As such, Virginia will need to continue to exercise great fiscal prudence in the coming years to ensure the Commonwealth maintains its structural balance, financial strength, and resilience, while continuing to serve its citizen's needs.

# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

### **2025 Debt Capacity Recommendations**

The 2025 Base Model Average Solution debt capacity calculation (Appendix A-8) shows that an additional \$1.49 billion in tax-supported debt could be authorized and issued in each of fiscal years 2026 and 2027. This amount of new authorization and issuance would cause projections of debt service as a percent of Blended Revenues to remain below the 5% debt capacity limit in each year of the ten-year projection period. As always, the 2-year excess capacity requirement acts as a limiting factor to the average debt capacity solution.

### **Other Recommendations**

- a) The Committee expresses 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, as opposed to leases and other forms of borrowing that typically result in higher financing costs but are ultimately still viewed as tax-supported debt.
- b) The Commonwealth has seen construction costs increase dramatically in recent years due to inflationary pressures on both materials and labor costs, and as a result, there is often uncertainty as to what the final cost will be for projects for which debt has been authorized but the debt has yet to be issued. As such, the Committee recognizes the possibility that additional funding sources may still be needed to fully fund projects that were previously authorized and consideration should be given as to whether any existing authorizations of projects not under construction should be rescinded or amended.
- c) The Committee is cognizant of the Commonwealth's increasing total tax-supported debt over the last 10-years, which can be seen graphically compared to U.S. and triple-AAA state medians, as calculated by Moody's, on pages 26 and 27 of this report. The Commonwealth's net tax-supported debt ("NTSD") per capita and NTSD as a percentage of personal income have both increased over the last decade. As of fiscal year-end 2024, Virginia was ranked 14<sup>th</sup> and 16<sup>th</sup> in the nation for these ratios, respectively. In addition, these ratios only consider the debt outstanding as of the prior fiscal year-end and do not contemplate Virginia's additional \$4.5 billion of authorized and unissued tax-supported debt as of June 30, 2025.

### **Review of Tax-Supported Debt**

#### **General Fund Supported Debt**

The Commonwealth issues two types of tax-supported debt: GO Bonds and various kinds of appropriation-supported obligations. The Commonwealth's GO Bonds are secured by the full faith and credit of the Commonwealth and are rated in the highest rating category by the bond rating agencies. Several factors contribute to the high bond ratings, including the legal protections

# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

## December 18, 2025

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 the most transparent of the various types of state debt obligations and typically carry the lowest interest cost. Depending upon market conditions, interest rates on GO bonds on any given day may range from 5 to 20 basis points lower than comparable appropriation supported bonds. However, there are challenges to issuing GO bonds to finance capital needs, which often offset the benefits of the reduced borrowing costs. GO bonds issued under Article X, Section 9(b) of the Constitution require state-wide approval by the voters through referendum, a process which can be both time consuming and costly. There is no guarantee that a GO bond referendum will pass, and approval by the voters requires sufficient diversity of the proposed capital projects to appeal to citizens across all regions of the Commonwealth. This can lead to the authorization of debt financing for a larger number of projects than may have otherwise been considered. In addition, should the referendum fail to pass, it can hinder the Commonwealth's ability to authorize appropriation backed debt to finance those projects in subsequent budget bills.

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.). The GO pledge for 9(c) Bonds provides a back-stop in the event net project revenues are insufficient to service the debt. 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. Because of the GO pledge, 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 are insufficient and the GO pledge is invoked, will that debt be incorporated in the model. This has not occurred since 9(c) debt was first issued in 1973.

Commonwealth appropriation-supported debt includes bonded debt as well as certain long-term leases, certain long-term SBITAs, and installment purchase obligations. Such debt is authorized by the General Assembly. Principal and interest payments on these obligations are made from annual appropriations from the general fund. These bonds are rated slightly lower than Virginia's GO bonds, reflecting the marginally higher risk that debt service will not be annually appropriated. The Commonwealth has increasingly relied on the use of appropriation-supported debt (e.g. VPBA and VCBA) to provide financing for capital projects.

### Transportation Debt

The rating agencies view all debt supported by state-wide, generally applied taxes and fees to be "Tax-Supported Debt". The Transportation Trust Fund was established by the General Assembly in Chapters 11, 12, 13 and 15 of the Acts of the Assembly, 1986 Special Session (the "1986 Special Session Acts"), as a special non-reverting fund administered and allocated by the Commonwealth Transportation Board ("CTB") for the purpose of increased funding for construction and other capital needs of state highways, airports, mass transit and ports. Chapters 1230 and 1275 of the Acts of the General Assembly of the Commonwealth of Virginia 2020 Regular Session ("Chapters 1230 and 1275") enacted numerous structural changes to the transportation funding system in the Commonwealth. These changes generally became effective July 1, 2020.

# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

Under Chapters 1230 and 1275, transportation-related revenues are directed to a new special non-reverting fund known as the Commonwealth Transportation Fund, and the distribution of revenues is streamlined, based on codified formulas, to sub-funds established to meet the varying transportation needs and different modes of transportation in the Commonwealth. The TTF continues to be funded primarily from the initial base of revenues specified by the 1986 Special Session Acts, as amended, including the retail sales and use tax, motor fuels tax and motor vehicle related taxes and fees. Chapters 1230 and 1275 made changes to and added to these revenue sources.

Those revenues, as well as the debt service supported by those revenues, are included in the model calculation. Beginning with the 2025 Report, certain dedicated CTF revenues that do not flow into the TTF but are available to pay debt service on related tax-supported transportation bonds, including Route 58 Program revenues and Special Structures Program revenues, are also included as part of the transportation revenues in the model calculation. Not included in the Debt Capacity Model are highway maintenance and operating revenues, federal transportation revenues, and debt related to Grant Anticipation Revenue Vehicles (“GARVEEs”) paid from federal transportation revenues.

Transportation debt has 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 rating agencies the same as other appropriation-supported obligations of the Commonwealth. The strength of the Commonwealth appropriation pledge and the depth of resources available for repayment may result in a higher rating than if secured by the TTF alone.

The CTB has issued bonds to be 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, various projects through the Capital Projects Revenue Bonds authorized by the General Assembly in 2007, and most recently the Special Structures Program. Historically, transportation specific debt service as a percentage of transportation revenues available for debt service has greatly exceeded 5%. Accordingly, to the extent the 5% measure is exceeded, capacity derived from the general fund is being utilized by transportation debt service. This does not mean that general fund dollars are supplementing debt service payments on transportation debt; rather, it means that capacity derived from the general fund is being used to keep overall capacity for all tax-supported debt under the 5% target. From fiscal year 2016 through fiscal year 2025, tax-supported transportation debt service as a percentage of transportation revenues ranged from 9.65% to 18.7%, although this ratio has steadily declined over the last ten years as existing debt from the 2007 authorization is paid off. Model projections indicate that tax-supported transportation debt service as a percentage of transportation revenues will continue to exceed 5% going forward, with projected debt service to revenue ratios ranging from 9.8% to 10.2% over the next decade.

# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

## December 18, 2025

### Trends in Tax-Supported Debt

The total outstanding tax-supported debt of the Commonwealth increased by 9.4% over the last ten fiscal years, or about \$2.0 billion, increasing from \$20.9 billion in fiscal year 2016 to \$22.8 billion in fiscal year 2025. The Commonwealth's total tax-supported debt can be split into three primary categories: GO debt, Section 9(d) debt, and other long-term obligations, which consist primarily of pension liabilities, other post-employment benefits ("OPEB") liabilities, and compensated absences. While other long-term obligations are generally evaluated by rating agencies as part of an issuer's overall debt profile, they are not typically part of their calculations of debt ratios. Accordingly, they are not included in the Commonwealth's debt capacity calculation. Excluding the other long-term obligations, the remaining tax-supported debt has increased about \$2.8 billion, or 24.8%, over this same period. In fiscal year 2025, total tax-supported debt, including other long-term obligations, decreased by approximately \$405.2 million, or 1.7%, driven primarily by a \$418.7 million decline in 9(d) debt as the result of lower than normal 9(d) bond issuance in 2025. When other long-term obligations are excluded, the remaining tax-supported debt decreased by \$470.5 million, or about 3.5%. Section 9(d) appropriation supported bonds related to transportation, public buildings, and higher education continued to make up the largest portion of the Commonwealth's tax-supported debt obligations as of fiscal year-end 2025, totaling \$13.1 billion, while outstanding G.O. debt remained relatively low at \$1.0 billion. Other Section 9(d) debt, which includes non-bonded 9(d) debt obligations such as long-term leases, SBITA's, and installment purchases, totaled \$1.3 billion at fiscal year-end 2025.

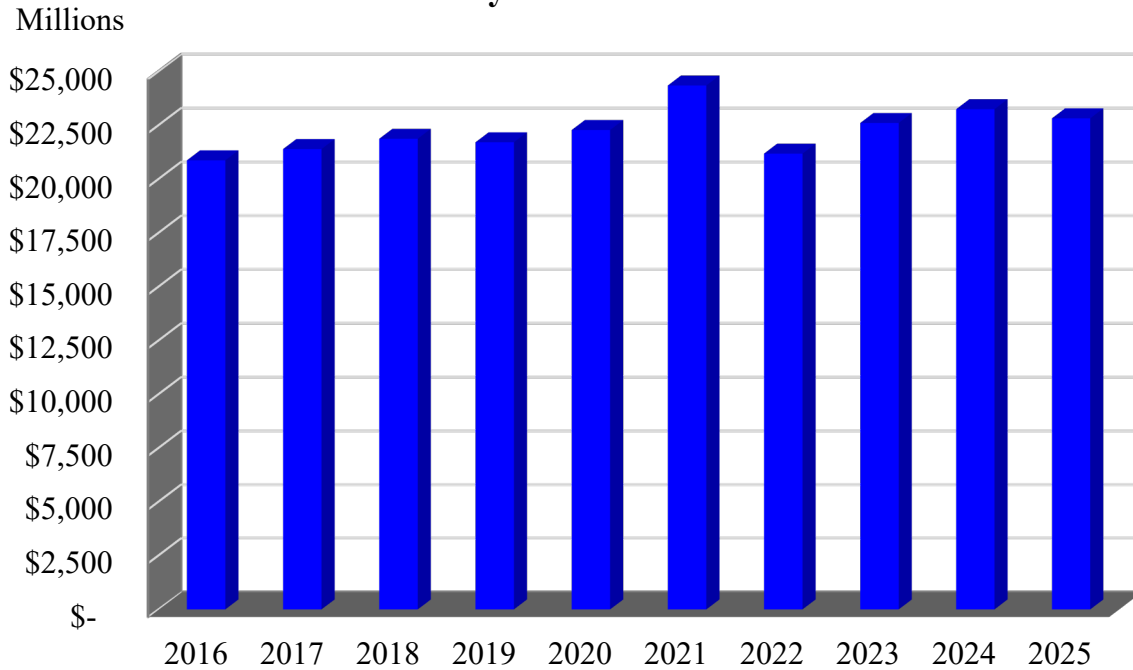
Despite the \$2.0 billion increase in tax-supported debt over the last decade, outstanding tax-supported debt as of fiscal year-end 2025 was down by more than \$1.5 billion from its peak at fiscal year-end 2021. The primary driver of the decline in tax-supported debt since fiscal year 2021 was the use of surplus cash to pay down pension liabilities in fiscal year 2022, which resulted in a \$4.3 billion decline in other long-term obligations in fiscal year 2022, coupled with muted authorization and issuance of tax-supported debt over the last four fiscal years relative to historical levels. The overall growth in tax-supported debt over the last decade has been driven almost entirely by increased Section 9(d) debt, while outstanding GO debt and other long-term obligations have declined over the same period. While the majority of the growth in Section 9(d) debt has been organic, some of the growth is related to changes in accounting standards over this period, including changes to the reporting of long-term lease liabilities, the recognition of SBITAs as long-term liabilities, and the recognition of unused sick leave as compensated absences. These accounting changes have led to the recognition of approximately \$1.1 billion in additional long-term liabilities in recent years.

The graphs on the following pages provide historical perspective on the Commonwealth's outstanding tax-supported debt in total, outstanding tax-supported debt by category, and breakouts of the primary components that comprise Section 9(d) debt and other long-term obligations.

# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

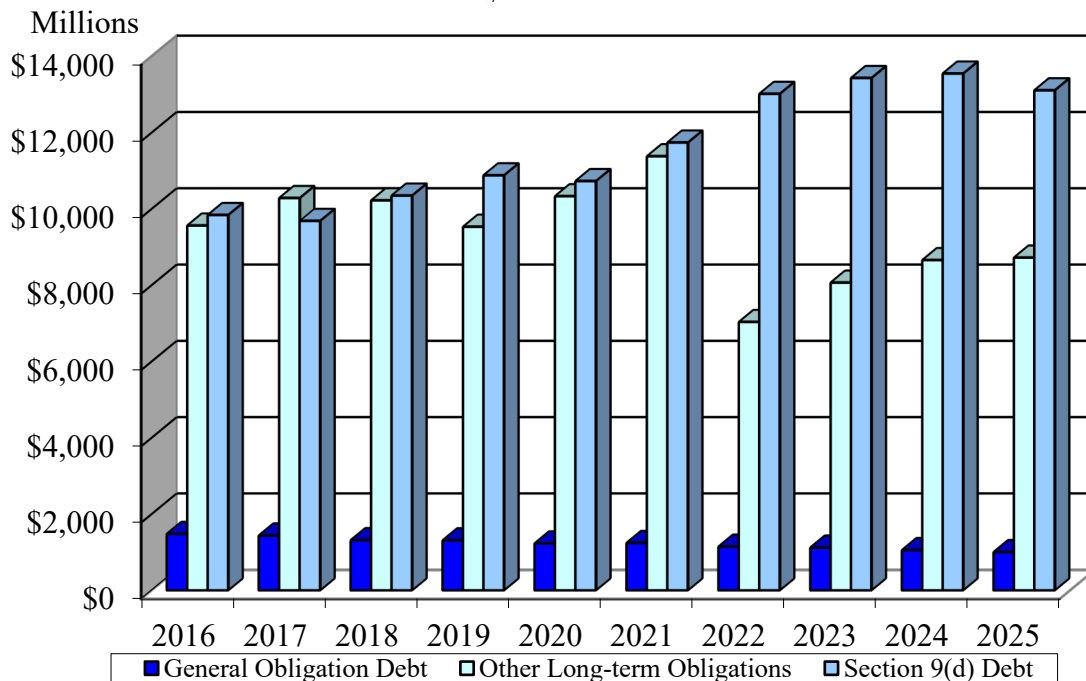
## December 18, 2025

### Outstanding Tax-Supported Debt Fiscal years 2016-2025 <sup>(1)</sup>



<sup>(1)</sup> Includes other long-term obligations such as pension liabilities, OPEB and compensated absences.

### Outstanding Tax-Supported Debt by Category Fiscal years 2016-2025 <sup>(1)</sup>



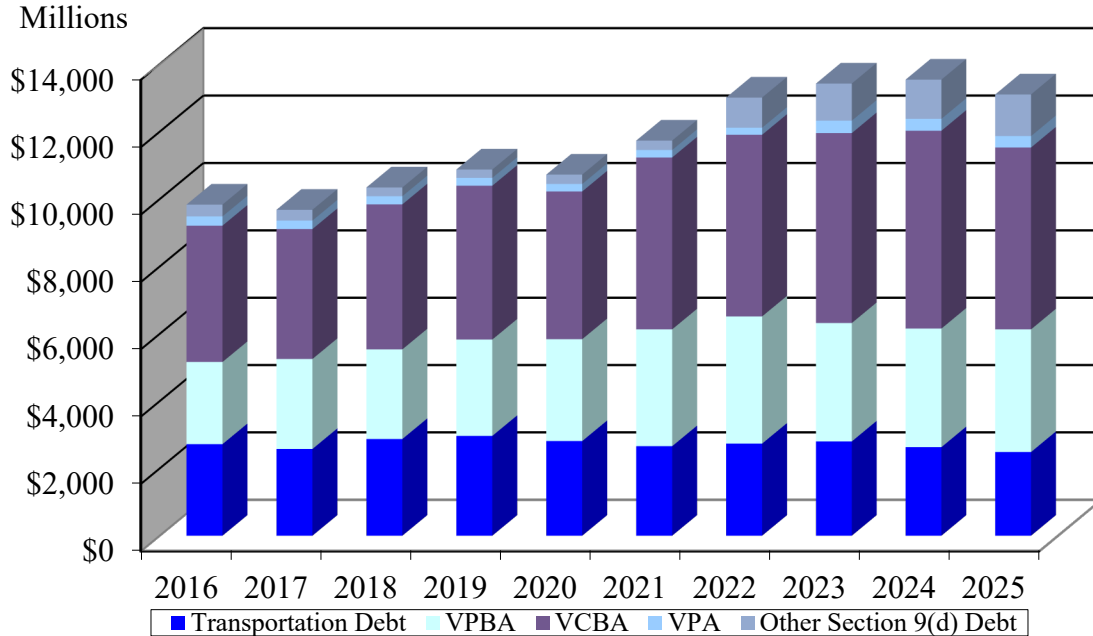
<sup>(1)</sup> Includes other long-term obligations such as pension liabilities, OPEB and compensated absences



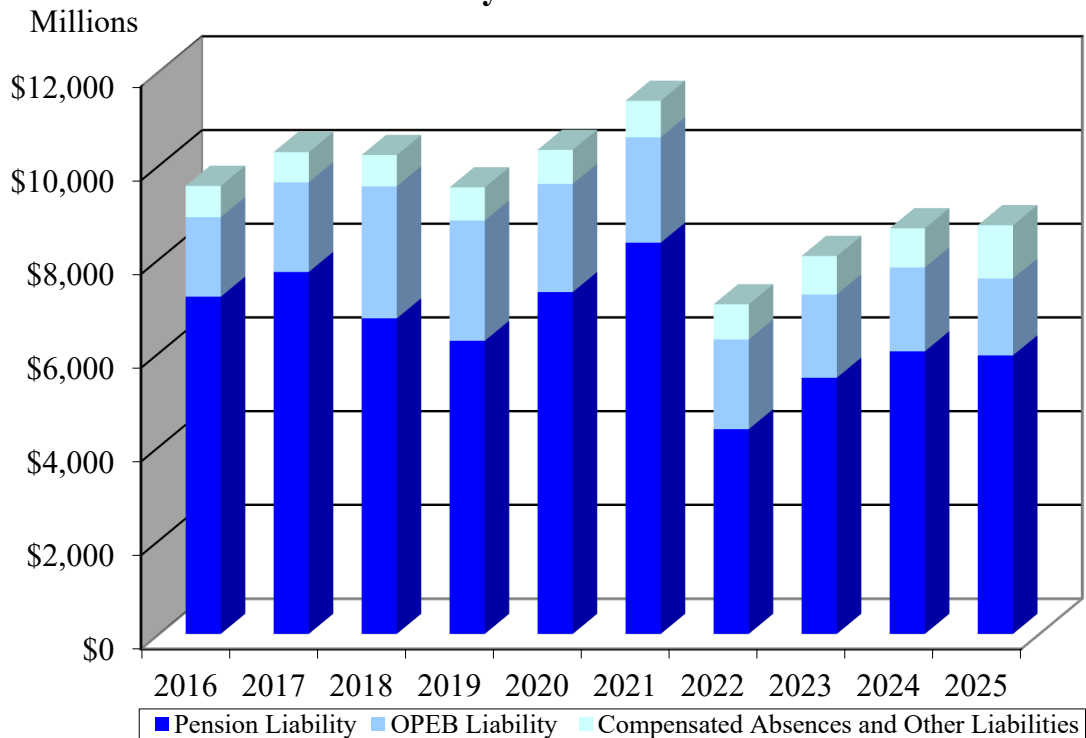
# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

## December 18, 2025

### Outstanding Section 9(d) Debt Fiscal years 2016-2025



### Outstanding Other Long-Term Obligations Fiscal years 2016-2025





# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

### **General Obligation Debt**

GO debt, which had a June 30, 2025 balance outstanding of \$1.0 billion, has declined by \$477.5 million, or 32.3%, over the last decade. This is due to the fact that the last 9(b) GO bond referendum approved by the voters occurred more than 20 years ago in 2002. Bonds from the 2002 authorization, which totaled \$1.0 billion, were issued as needed, with the final issuance occurring during fiscal year 2010. From fiscal year 2011 onward, any new issuances of GO debt came solely from the issuance of 9(c) GO bonds, which are regularly authorized by the General Assembly for qualifying revenue-producing capital projects and are not included in the debt capacity calculation as they are self-supporting. Despite the regular issuance of new 9(c) debt, total GO debt levels declined in all but one fiscal year from fiscal year 2016 through fiscal year 2025 as the payoff of existing 9(b) debt has outpaced the issuance of new 9(c) debt. However, in fiscal year 2021, the outstanding GO balance increased by 1.0%, or \$12.2 million, as 9(c) bond issuances outpaced the payoff of 9(b) bonds in that year. In fiscal year 2025, total GO debt outstanding decreased by 4.9%, or \$51.8 million, as 9(b) debt payoff once again outpaced the issuance of new 9(c) bonds.

### **Legal Debt Limit and Debt Margin**

The Commonwealth's various forms of GO debt are subject to legal debt limitations under Article X, Section 9 of the Constitution. Total outstanding Section 9(a) GO bonds are limited to 30% of 115% of the current year's tax revenues. Total outstanding Section 9(b) and Section 9(c) GO bonds are each separately limited to 115% of the average of the last three fiscal years of tax revenues. In addition, annual authorization for any additional Section 9(b) GO bonds may not exceed 25% of 115% of the average of the last three fiscal years of tax revenues. The calculations for the Commonwealth's Legal Debt Limits and Debt Issuance Margins as of fiscal year-end 2025 can be found on page A-14 of the Appendices to this report.

### **Section 9(d) Appropriation Debt**

Section 9(d) debt includes tax-supported bonds issued by the VCBA, the VPBA, the CTB, and certain obligations of the Virginia Port Authority ("VPA"). It also includes long-term lease and long-term SBITA liabilities that are paid for directly by general fund appropriations and certain general fund supported installment purchases. This debt category has shown significant dollar growth over the last ten fiscal years, increasing by \$3.3 billion during the decade, which is equivalent to a 33.4% increase over the ten-year period. Total outstanding Section 9(d) debt as of June 30, 2025 was \$13.1 billion, compared to \$9.8 billion at fiscal year-end 2016. The increase is attributed to significant authorizations for transportation bonds in 2007 that have been issued over the last 10 years, and significant authorizations of VCBA and VPBA bonds in 2008, 2009, 2010, 2013, 2014, 2016, 2018, 2019, and 2020. The implementation of GASB 87 in fiscal year 2022, GASB 96 in fiscal year 2023, and GASB 101 in fiscal year 2025, also led to the recognition of approximately \$1.1 billion in additional 9(d) debt in the form of long-term leases, SBITA's and compensated absences during this period. While authorization of new 9(d) bonds was limited from fiscal year 2021 to 2023, with only \$785.0 million of new authorization during this period, authorization trended back up in fiscal year 2024 and 2025 to more historical levels. In fiscal year

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2025, the outstanding balance of Section 9(d) debt decreased by \$418.7 million, or 3.1%, as the amount of new 9(d) bonds issued was well below normal for the year. As of fiscal year-end 2025, the Commonwealth had \$3.7 billion in authorized but unissued 9(d) debt, so despite the muted issuance level in fiscal year 2025, it is expected that future 9(d) issuances will remain elevated.

### **Other Tax-Supported Long-Term Obligations**

Other long-term obligations were the greatest driver of growth amongst the various tax-supported debt categories of the Commonwealth during the first half of the last decade. However, the Commonwealth used surplus cash balances to fund a significant portion of its net pension liabilities in fiscal year 2022, which helped offset much of the prior growth in this debt category. Due to this substantial reduction in pension liabilities, other long-term obligations have declined by \$840.5 million, or 8.8%, over the last decade. At fiscal year-end 2025, other long-term obligations totaled \$8.7 billion, an increase of \$65.4 million, or 0.8%, as compared to the prior fiscal year. This increase was driven entirely by an increase in compensated absences, as both pension and OPEB liabilities declined in fiscal year 2025. Total other long-term obligations remain more than \$3.0 billion below their peak level of \$11.7 billion that was recognized in fiscal year 2021, and the Commonwealth's pension and OPEB liabilities remain lower at fiscal year-end 2025 than they were at the beginning of the decade.

### **Authorizations and Issuances of Tax-Supported Debt**

Tax-supported debt of the Commonwealth must first be authorized through the state's legislative process, with approval from the Virginia General Assembly required. In the case of 9(b) GO bonds, additional state-wide approval from the Commonwealth's voters via referendum is also required. Once authorization for tax-supported debt is approved, the bonds may be issued by the Commonwealth's various issuing bodies, pending final approval of the terms and structure of the bonds by the governing boards of the relevant issuing bodies, and as necessary, the Office of the Governor and the Cabinet. However, bond issuances are based on the cash flow needs of authorized projects and are not market driven. As such, authorizations do not result in the immediate issuance of associated bonds, and it often takes years for an authorization to be fully issued. This has been particularly apparent over the last five fiscal years, as new authorizations of tax-supported debt totaled \$3.3 billion while issuances totaled \$5.3 billion over this same period.

In the 2025 Appropriation Act, the Commonwealth authorized \$1.3 billion in additional tax-supported debt, which includes \$1 billion in authorization for a new transportation bond credit which leverages Special Structures Program revenues to bond finance related capital projects. The Commonwealth also issued \$423.7 million in new money tax-supported bonds in fiscal year 2025. As of June 30, 2025, total authorized but unissued tax-supported debt amounted to \$4.5 billion, including \$3.7 billion of 9(d) bonds that flow into the 2025 debt capacity model calculation. Further details on the Commonwealth's fiscal year 2025 authorizations and issuances of tax-supported debt are presented on the following page.

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### Fiscal year 2025 Tax-Supported Debt Authorizations

Chapters 795 (Appropriation Act) and 327 (Special Structures Revenue Bond Act) of the 2025 Reconvened Session of the Virginia General Assembly authorized an additional \$1.3 billion of tax-supported bonds to be issued as follows:

- Chapter 795 (Item C-58): \$206,085,243 in additional GO 9(c) bonds for higher education.
- Chapter 795 (Item 264-3a): \$44,758,218 in additional 9(d) VPBA bonds to support regional jail projects.
- Chapter 327: \$1,000,000,000 in additional transportation 9(d) revenue bonds to support specific capital projects designated as part of the Special Structures Program. Authorization for these bonds limits the total amount of bonds outstanding at any given time to no more than \$1 billion, but does not cap the total lifetime issuance of these bonds. In addition, annual issuance may not exceed \$200 million and additional bonds test require sufficient revenues to meet debt service coverage requirements for any planned issuances.

### Fiscal year 2025 Tax-Supported Debt Issuances (New Money Only)

On March 19, 2025, the VPBA issued \$348,540,000 of its Public Facilities Revenue Bonds, Series 2025AB, to finance certain capital projects throughout the Commonwealth.

On June 24, 2025, the Commonwealth of Virginia issued \$75,150,000 of its General Obligation Bonds, Series 2025A, to finance revenue producing capital projects at public institutions of higher education within the Commonwealth. These bonds are Section 9(c) GO bonds and are not included in the DCAC model as they are self-supporting via project revenues.

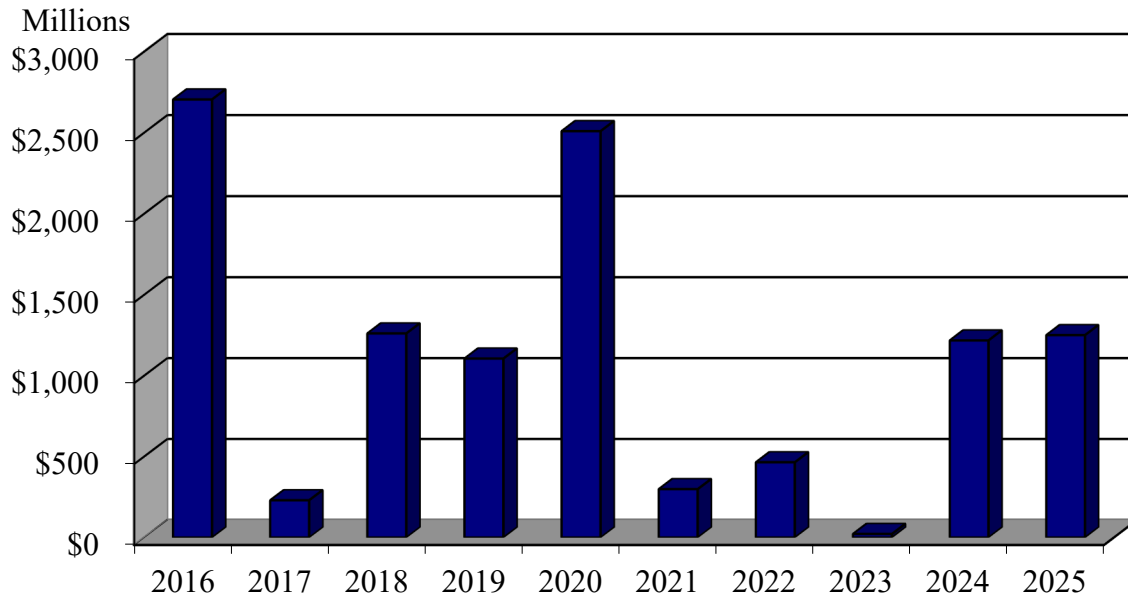
### Historical Authorizations and Issuances of Tax-Supported Debt

Over the last 10 fiscal years, \$11.1 billion of tax-supported debt was authorized across various programs, with the majority authorized for VCBA and VPBA projects, while \$9.7 billion of new tax-supported debt, exclusive of refundings, was issued. Authorizations ranged from a low of \$21.7 million in fiscal year 2023 to a high of more than \$2.7 billion in fiscal year 2016. Annual new-money debt issuance ranged from a low of \$423.7 million in fiscal year 2025 to a high of \$1.6 billion in fiscal year 2021. In four of the ten years, authorizations were below \$500 million, while in the other six years, authorizations were above \$1.0 billion, with two years over \$2.5 billion. Issuances of less than \$1 billion in a fiscal year have occurred four times over the last ten years, with the remaining six years seeing more than \$1 billion issued. Fiscal year 2025 saw the lowest total issuance level for the Commonwealth in the last decade. As can be seen in the authorization graph on the next page, significant authorizations can occur in both even and odd years and are not always related to a new two-year budget bill being passed. However, it is more common for higher authorizations to occur with the passage of a new two-year budget. The two charts on the following page illustrate the amounts of total tax-supported debt authorized and issued from fiscal years 2016 through 2025.

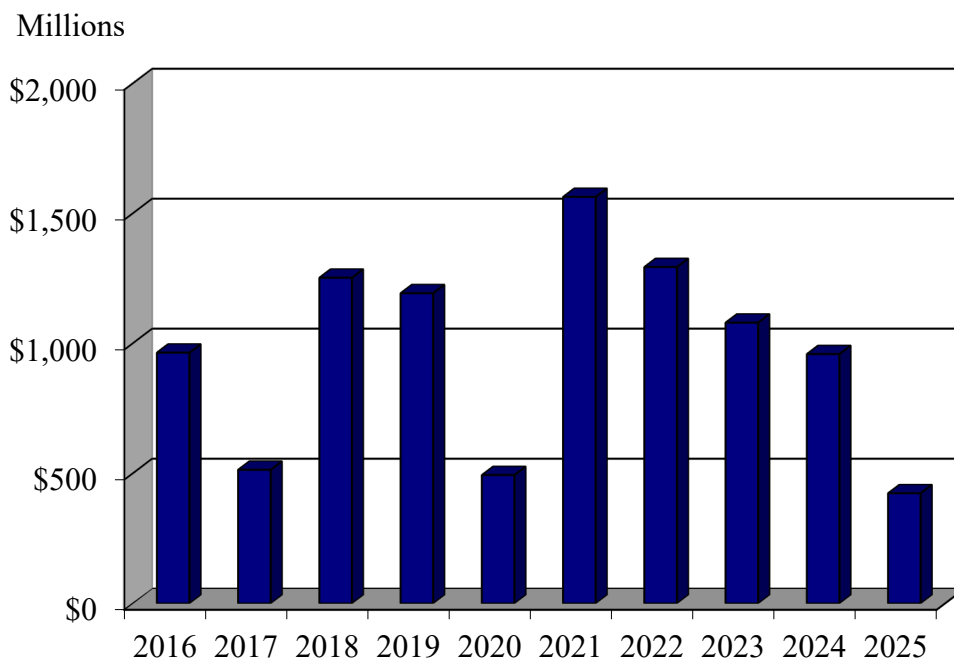
# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

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### Tax-Supported Debt Authorizations Fiscal years 2016-2025 \$11.1 Billion in Authorizations



### Tax-Supported Debt Issued Fiscal years 2016-2025 \$9.7 Billion in Issuances



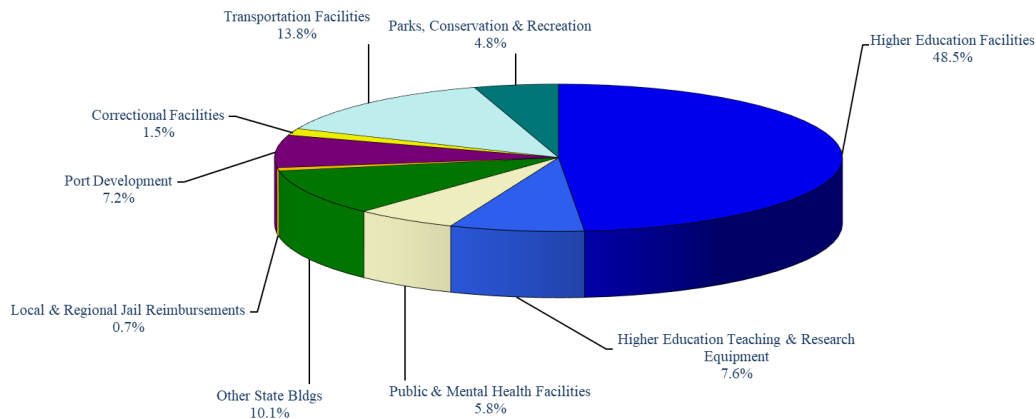
# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

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### Uses of Outstanding Tax-Supported Debt

The following chart illustrates how the Commonwealth has utilized its tax-supported debt over the last ten years. Of the total \$9.7 billion issued, 56.1% has been used for capital projects and teaching and research equipment at state institutions of higher education. Transportation related projects paid from the TTF is the next highest combined category at 21.0%, which includes transportation facilities and port development. (Note: transportation projects financed with federal revenues are not considered tax-supported debt and are not included.)

**Uses of Tax-Supported Debt Issued  
FY 2016 - FY 2025**



Ten-year Total = \$9.7 Billion

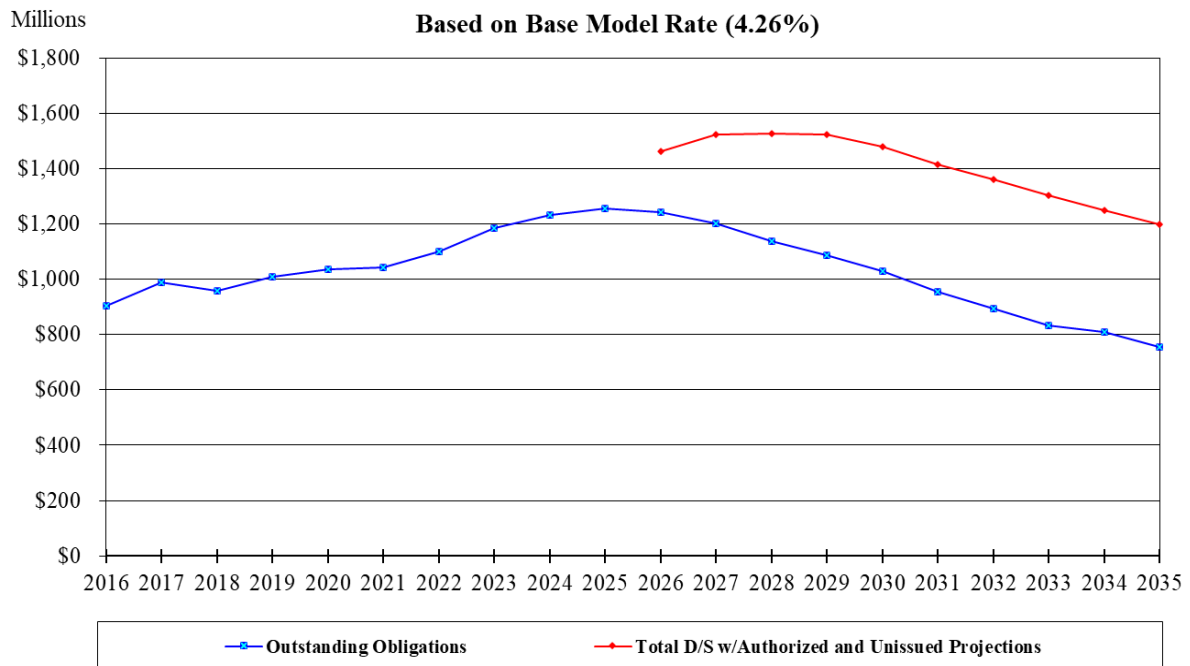
# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

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### Debt Service

Amounts paid annually for debt service have steadily increased over the last ten years, increasing in all but one of the last ten fiscal years. It is worth noting that Virginia has no variable rate tax-supported debt outstanding as of June 30, 2025 and does not utilize short term financing, such as revenue anticipations notes, for operational needs. As a result, the Commonwealth's debt service has stability and has been mostly unaffected by rising interest rates over the last few fiscal years. Future debt service payments, including payments on existing debt and estimated payments on authorized but unissued debt, are projected to increase through fiscal year 2027, and then decline annually through fiscal year 2035 as existing debt is retired. Annual debt service, including the estimated debt service on all currently authorized but unissued amounts and long-term lease liabilities and installment purchases, is illustrated below.

### Tax-Supported Debt Service: Actual and Projected Fiscal years 2016 – 2025<sup>(1)</sup>



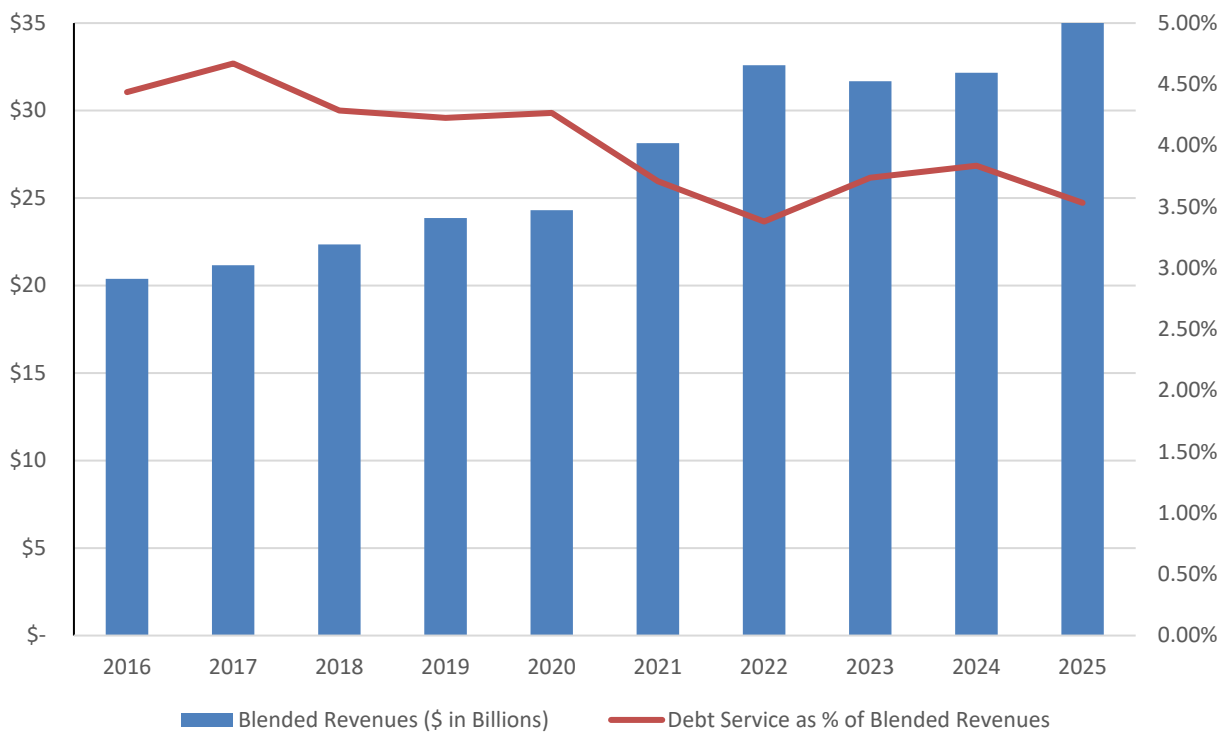
<sup>(1)</sup> Assumes authorized debt is issued in future periods at the Base Model interest rate of 4.26% in accordance with the Model's other standard assumptions. Past data includes lease revenue bonds issued by the Virginia Biotech Research Park Authority and Newport News Industrial Development Authority that are no longer outstanding.

# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

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Although debt service has increased on an absolute basis over the last decade, revenues have increased sharply over the same period, while new debt has been issued at historically low rates and cash surpluses have been used to reduce borrowing needs. As a result, debt service as a percentage of Blended Revenues has been on a downward trend from its peak of nearly 4.7% in fiscal year 2017 to a ten-year low of 3.4% in fiscal year 2022. In fiscal year 2025, debt service totaled 3.5% of Blended Revenues. A chart comparing the Commonwealth's last ten years of historical debt service as a percentage of Blended Revenues is presented below.

**Historical Debt Service as a Percentage of Blended Revenues**



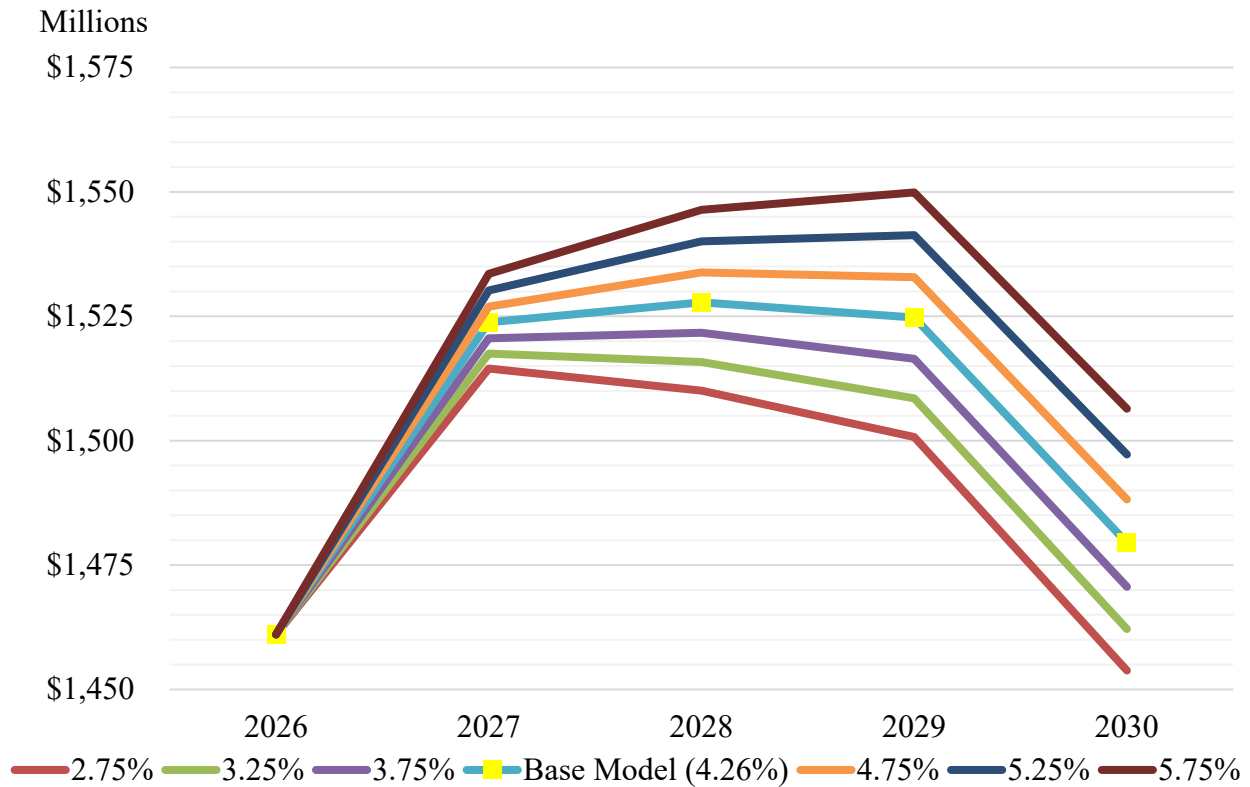
Projected debt service as a percentage of Blended Revenues, assuming all authorized and unissued tax supported debt is issued at the 4.26% Base Model rate, is projected to increase through fiscal year 2027 to a high of 4.1% before declining annually through fiscal year 2035 to a projected low of 2.4% in 2035.

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While the Base Model rate of 4.26% is considered a reasonable and appropriate rate given current market conditions and future expectations for market rates, there is always great uncertainty in trying to predict future interest rate movements. Recent market volatility and recessionary fears make it more important than ever that Virginia consider the impacts various interest rates could have on the future debt service costs of the Commonwealth. The chart below illustrates the Commonwealth's total projected tax-supported debt service payments over the next 5 fiscal years at various rates ranging from 2.75% to 5.75%. A change in borrowing rates of 50 bps in either direction can increase or decrease the Commonwealth's maximum annual tax-supported debt service by anywhere from \$3 million to \$10 million annually. The Base Model rate of 4.26% is shown on the blue line highlighted with yellow markers.

### Projected Tax-Supported Debt Service: Interest Rate Sensitivity Fiscal years 2026 – 2030





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### Review of Other Debt Not Supported by Taxes

In addition to the various forms of tax-supported debt discussed in the previous sections of this report, Virginia also has a substantial amount of other long-term obligations that are not supported by taxes. These other debts not supported by taxes include the 9(d) obligations of Virginia's higher education institutions for which general revenues of the institutions are pledged, obligations of the Commonwealth's various debt issuing agencies and authorities for which general tax revenues are not pledged as security for the debt, GARVEE's for which the debt is secured by Federal grants, Interstate 81 Revenue Bonds which are secured by special regional fuels taxes, the obligations of various state Foundations, certain portions of notes payable, certain portions of pension and OPEB liabilities, long-term lease liabilities, long-term SBITA's and installment purchases for which payments are not secured by general tax revenues, tuition benefits payable, and lottery prizes payable. While these debt obligations do not impact the state's debt capacity, they are still long-term obligations reported in the Commonwealth's Annual Comprehensive Financial Report and should be noted, particularly given the growth in these obligations. In addition, the rating agencies each maintain their own unique formulas for calculating tax-supported state debt burdens, so while these obligations may not be considered tax-supported debt by the Commonwealth, it is possible that rating agencies could consider certain obligations from within this category as tax-supported when considering the Commonwealth debt profile for rating purposes.

The Commonwealth's other debt not supported by taxes has grown significantly over the last ten fiscal years, increasing from \$21.7 billion in 2016 to \$36.5 billion in 2025, an increase of \$14.8 billion, or 68.1%. These other debts not supported by taxes have seen mostly steady growth throughout the last decade, increasing in all but two of the last ten fiscal years. In fiscal year 2025, other debt not supported by taxes increased by \$2.3 billion, or 6.8%, driven primarily by increased debts of the Virginia Housing Development Authority ("VHDA") and the Hampton Roads Sanitation District Commission ("HRSDC"). While most categories of debt not supported by taxes saw growth over the last ten fiscal years, the primary drivers were growing 9(d) higher education obligations, VPSA obligations, VHDA obligations, HRSDC obligation, Hampton Roads Transportation Accountability Commission obligations, and long-term lease liabilities. Other debt not supported by taxes that carry either a moral obligation pledge or contingent liability pledge totaled \$3.7 billion as of June 30, 2025, and these obligations have actually decreased by \$205.6 million, or (-5.2%), over the last ten years. These moral obligation and contingent liability obligations could potentially be considered as tax-supported within the DCAC model in the event the underlying support of the Commonwealth were ever utilized to pay the debt service on these bonds. Further discussion on these liabilities, including sensitivity analysis regarding their potential impact on debt capacity, can be found on pages A-15 through A-17 of the attached Appendices.

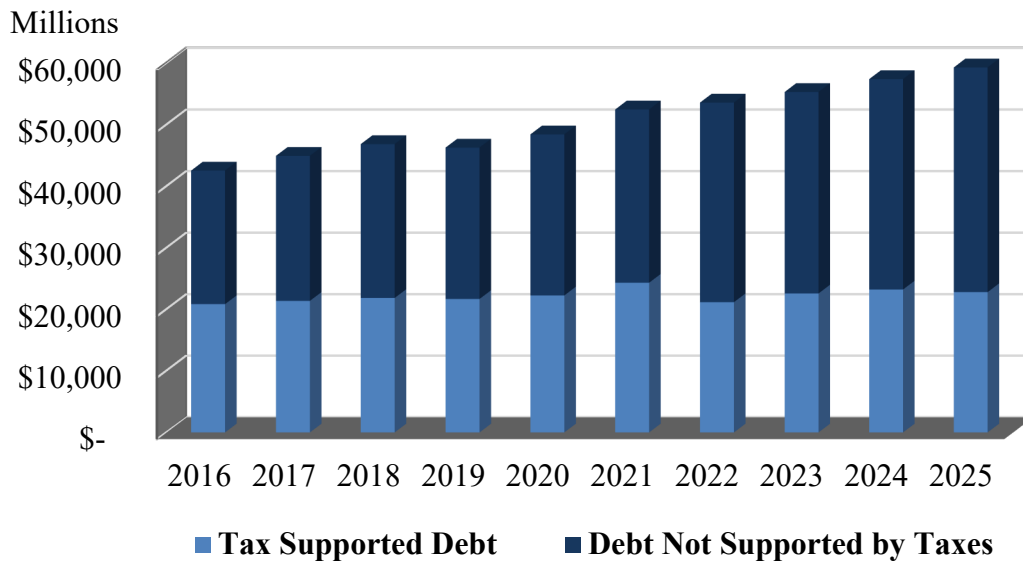
# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

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### Total Debt of The Commonwealth

As of June 30, 2025, Virginia's total debt outstanding was \$59.3 billion, which represented an increase of \$16.8 billion over the last ten years, or 39.4%. Virginia's total debt at fiscal year-end 2025 consisted of \$22.8 billion in tax-supported debt and \$36.5 billion of debt not supported by taxes. Virginia's total debt burden, broken out by tax-supported debt and debt not supported by taxes, is illustrated below.

**Total Debt of the Commonwealth**  
**Fiscal years 2016-2025**



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### Review of State Credit Ratings

Credit ratings are the rating agencies' assessment of a governmental entity's ability and willingness to repay debt on a timely basis going forward. Credit ratings are an important factor in the public debt markets and generally influence the interest rates a borrower must pay. The Commonwealth is rated Aaa/Stable (Moody's), AAA/Stable (S&P), and AAA/Stable (Fitch). Virginia's triple-AAA ratings reflect the Commonwealth's substantial fiscal resources, careful management of operations and debt, and strong budgetary flexibility. Virginia also maintains a strong revenue base with a low debt burden relative to its economic resource base.

Ratings on the Commonwealth's appropriation-supported programs are "one notch" below the GO ratings: Aa1 (Moody's), AA+ (S&P) and AA+ (Fitch). The appropriation-supported bonds carry the same outlooks as the GO ratings, but are rated "one notch" lower due to the risk of non-appropriation.

Virginia's economic profile remains strong with a diverse mix of industries, a high level of wealth, and an internationally competitive workforce. Virginia's long-term economic growth prospects are solid, with above-average populations growth and high education levels. However, Virginia's economy is significantly influenced by the federal government through both direct employment and contract spending. This relationship can have a positive impact on Virginia's revenues, as was the case during the pandemic, as the impacts to Virginia were less severe than in most states. However, that relationship also places Virginia potentially at risk when there are federal government downsizings or extended shutdowns.

In the case of the 2018/2019 extended shutdown, where a large portion of the Commonwealth's federal employees were furloughed or worked without pay, there was not a material impact on state revenues as the workers ultimately received mandated back pay following the reopening of the federal government. Regarding the most recent extended shutdown from October 1 to November 12, 2025, the same outcome is anticipated given that the impacted workers are now receiving their backpay. With respect to the most recent federal government downsizing, the financial impact has also been much less than anticipated to date. Withholding payments to the Commonwealth for federal employees living in Virginia are up year to date and continued unemployment claims in Virginia are a small fraction of those in Maryland and DC relative to total employment in each district. This can be largely attributed to the fact that, of the employees working for federal agencies in Virginia, more than 70% are engaged in defense, homeland security and national intelligence activities, which are less exposed to downsizing in the current environment and for which funding was recently confirmed.

While Virginia has seen substantial growth in revenues in recent years and has bolstered reserve fund balances, rating agencies continue to note that Virginia is highly reliant on both individual income taxes and sales taxes, which together make up approximately 85% of the general fund revenues. Both of these tax sources are economically sensitive, and Virginia's high dependence on them can result in increased revenue volatility during times of economic downturn. However, thanks to Virginia's broad and stable economic profile, long-term revenue growth is projected by

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the rating agencies to outpace inflation, but remain below national GDP growth rates. The rating agencies also note that Virginia has no legal limitations on its ability to raise recurring revenues through base broadenings, tax rate increases, or the assessment of new taxes or fees.

On the expenditure side, rating agencies note that education and health and human services make up the largest percentages of the Commonwealth's expenditures, both of which are projected to see outsize growth in coming years. Virginia provides substantial funding for local elementary education and also maintains one of the nation's most robust public higher education systems. Growing Medicaid costs are noted as the largest driver of cost increases for health and human services expenditures, but this is a challenge that is common to all U.S. states. Long-term expenditure growth, absent policy changes, is projected by the rating agencies to outpace revenue growth, requiring ongoing budget flexibility to maintain structural balance. However, the rating agencies believe that Virginia retains ample ability to meet its growing expenditures, noting its low carrying costs for debt and retiree benefits, which have typically been less than 4% of general fund expenditures. The rating agencies also note the Governor's ability to implement budget cuts as additional flexibility that allows the Commonwealth to manage its expenditures.

Overall, Virginia's long-term debt burden is considered low and manageable by the rating agencies given the Commonwealth's diverse and expanding economic base. The rating agencies note the ongoing capital needs in the Commonwealth related to higher education and transportation, as well as the large amounts of authorized but unissued debt related to these areas. However, the rating agencies also praise the Commonwealth's prudent debt management and commitment to funding capital projects with the lowest possible costs of capital. Virginia's long-term pension liability burden is also considered low and the Commonwealth has fully funded its actuarially determined annual contributions to the Virginia Retirement System since fiscal year 2017.

As noted earlier in the report, Virginia ended fiscal year 2025 with another large surplus and combined reserve fund balances of more than \$4.7 billion. Virginia's focus on developing structurally balanced budgets and the efforts to bolster reserve funds in recent years are seen as solid steps that have prepared the Commonwealth for any economic downturns that may arise in the future. Virginia's Constitution provides limitations on the use of the Revenue Stabilization Fund and requires its replenishment, which are factors that the rating agencies note as positives for Virginia's credit. Rating agencies also noted that the Commonwealth's most recent budget bill lowered the combined reserve fund cap from 20% to 17.5% for fiscal year 2025 and 15.0% for fiscal year 2026 and beyond, which will lead to a reduction in combined reserves. However, the rating agencies do not believe that the lower 15% cap will materially affect the Commonwealth's financial resilience, noting that the 15% cap would still be well above historical levels for the Commonwealth as well as the median reserve levels nationwide.

While Virginia finished fiscal year 2025 with another large surplus and record reserve funds, it will remain important for Virginia to continue to be conservative with its fiscal management going forward. Rating agencies continue to note that should the Commonwealth resort to structurally unbalanced budgeting practices during a recessionary period, where one-time revenues are utilized to fund ongoing expenses or reserve fund balances are substantially depleted, an action to lower

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the Commonwealth's rating could be considered. It is conservative financial management that resulted in the award of Virginia's triple-AAA bond ratings and it is those bond ratings that result in Virginia's low cost of borrowing that helps create budget flexibilities. A loss of even one AAA rating would prove costly not only to Virginia's reputation, but it would also result in higher debt service costs and reduced budget flexibility. Recent rating downgrades to Maryland and the District of Columbia highlight just how important it is for the Commonwealth to maintain fiscal prudence and a structurally balanced budget.

### Review of Comparative Ratios

Moody's Investors Service has compiled NTSD data for US states for nearly 40 years. Moody's defines NTSD as debt secured by statewide taxes and other governmental revenue, net of obligations that are paid with revenue other than taxes and other governmental revenue, and that is accounted for in non-governmental activities (such as utility or higher education funds). Each year, Moody's releases a comparative NTSD ratios report for the prior fiscal year, its *State Debt Medians Report* (Moody's Medians). The *State Debt Medians 2025 Report* was published on September 19, 2025 and includes data as of each state's 2024 fiscal year end. This was a change beginning with the 2022 Moody's Medians report. Prior versions of the report included data as of the most recent calendar year end. In addition, Moody's made revisions beginning with the 2022 Moody's Medians report as to how NTSD was calculated to include unamortized bond premiums/discounts and accreted interest. As a result of these changes, Moody's revised its fiscal year end 2020 NTSD numbers, resulting in a substantial 15% increase in NTSD compared to what was previously reported for fiscal year end 2020. The 2025 Moody's Medians report has been reviewed and certain data and analytical opinions from the 2025 Moody's Medians report are incorporated herein.

Last year's 2024 Moody's Medians report projected new state debt issuances to remain muted in fiscal year 2024 as interest rates remained elevated and states continued to use surplus revenues to finance portions of their capital spending needs or pay down debt. However, Moody's also noted in the 2024 report that they expected state surpluses to begin to recede in fiscal year 2024 as own-source revenue growth was projected to slow and federal funding from prior years was depleted. As projected, the 2025 Moody's Medians report notes that total NTSD amongst the states once again declined in fiscal year 2024, decreasing by 1.3%, with about two thirds of states seeing their NTSD decline over the prior year. Moody's once again noted in the 2025 report that capital asset depreciation ratios, which measure accumulated depreciation against gross depreciable assets to assess the overall condition of a state's capital assets, indicate that states which have delayed infrastructure investment in recent years may face increased demand for investment in buildings, roads, and other infrastructure in coming years. However, Moody's also noted that many states have increased their capacity for future debt issuances through recent cash financing of projects, the build-up of reserves, and record investment revenues in recent years. Forty-three states have seen their capital asset depreciation ratio increase over the last decade, while five states have seen this ratio decrease. Virginia is one of only two states that saw their capital asset depreciation remain stable over the last decade. While Moody's projects that many states will likely encounter rising debt levels in the coming years as they face pressure to accelerate capital spending after years of

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under-investment, the Commonwealth has continued to invest heavily in critical capital projects over the last decade, and as of the 2025 report, Virginia had the 4<sup>th</sup> lowest capital asset depreciation ratio in the nation at 42%.

The prior year's 2024 Moody's Medians report projected that adjusted net pension liabilities ("ANPLs") would once again decline in fiscal year 2024 as a result of continued higher investment returns relative to the prior decade. Once again, these projections proved accurate, as the 2025 Moody's Medians report noted total ANPLs amongst the states declined by 9.5% in fiscal year 2024. Overall, the combined decrease in ANPLs and NTSD resulted in total state sector long-term liabilities declining by \$200 billion, or 6.4%, in fiscal year 2024. Moody's projects ANPLs to continue to decline further in fiscal year 2025 due to continued elevated investment returns in the current rate environment.

Moody's reported that the fiscal year 2024 median nationwide NTSD per capita was \$1,214, an increase of \$25, or 2.1%, compared to the prior fiscal year. For triple-AAA rated states, the median in fiscal year 2024 was \$590, a decrease of \$84, or 12.4%, compared to the prior fiscal year. Growth in NTSD per capita continued to be muted or negative for some states as the use of operating surpluses to cash finance capital needs continued in fiscal year 2024, particularly amongst higher-rated states. Moody's reported Virginia's NTSD per capita as \$2,034 for fiscal year 2024, down from \$2,045 in fiscal year 2023, marking the second year of declines for the Commonwealth. Virginia remained the 14<sup>th</sup> highest nationally in debt per capita in fiscal year 2024. The continued decline in Virginia's NTSD per capita level is likely attributable to the low levels of new tax-supported debt authorization in recent years as Virginia turned to cash to support a growing portion of its capital needs.

Moody's reported that median nationwide NTSD as a percentage of personal income for fiscal year 2024 decreased to 1.8% from 2.0% in fiscal year 2023. Over the last ten years, this metric has seen a steady decline nationwide, reflecting states' more restrained approaches to debt issuance over the last decade, with the abnormal increases in fiscal years 2021 and 2022 due mostly to the change in calculation methods by Moody's that were described earlier. On the other hand, Virginia had seen this metric remain flat and/or increase in eight of the last ten years. However, Virginia's NTSD as a percentage of personal income once again decreased in fiscal year 2024 to 2.6% from 2.8% the prior year, marking two years in a row of declines for the Commonwealth and bringing this ratio to its lowest level in the last decade. Despite this decline in 2024, Virginia's ranking for this metric increased from 18<sup>th</sup> highest to 16<sup>th</sup> highest nationally. Similar to NTSD per capita, it is likely that Virginia's decline in NTSD as a percentage of personal income in recent years is a result of reduced authorization of new tax-supported debt in recent fiscal years. For triple-AAA rated states the NTSD as a percent of personal income decreased to 0.9% in fiscal year 2024 from 1.0% in fiscal year 2023.

The table and charts on the following two pages illustrate how Virginia compares to the 13 other triple-AAA states based on NTSD per capita and NTSD as a percentage of personal income. It should be noted that Maryland was downgraded by S&P in May of 2025 and is no longer considered a triple-AAA state, bringing the total number of triple-AAA states down to 14.



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### AAA/Aaa/AAA STATE DEBT BURDENS FROM 2015-2024 PROVIDED BY MOODY'S INVESTORS SERVICE

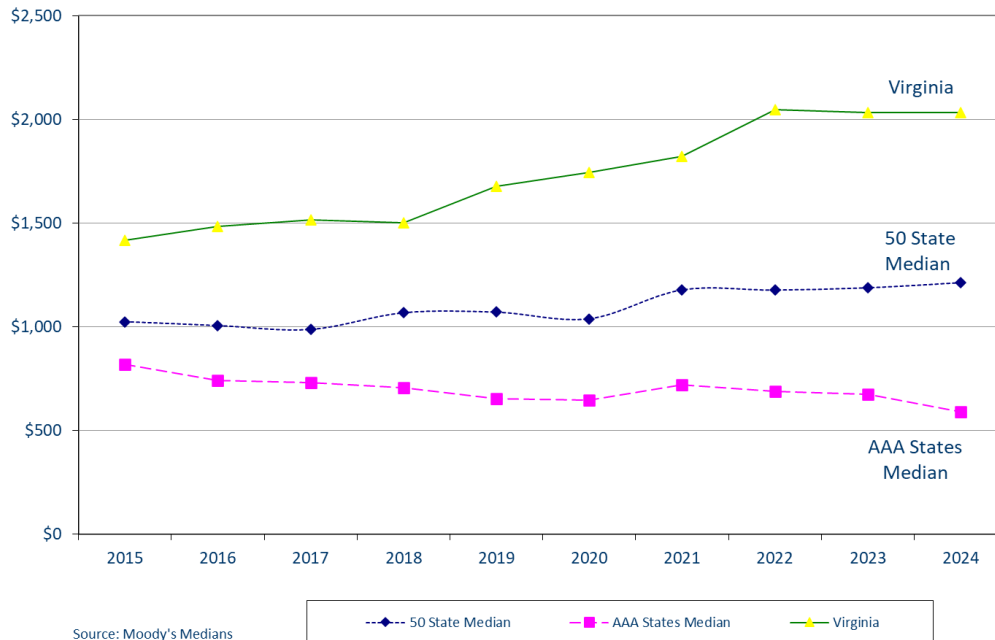
#### Net Tax-Supported Debt per Capita

	2024										
	Ranking	2024	2023	2022	2021 <sup>(1)</sup>	2020	2019	2018	2017	2016	2015
Delaware	4	\$4,472	\$4,526	\$4,266	\$4,143	\$3,400	\$3,289	\$3,206	\$2,587	\$2,544	\$2,385
<b>VIRGINIA</b>	<b>14</b>	<b>2,034</b>	<b>2,035</b>	<b>2,047</b>	<b>1,823</b>	<b>1,746</b>	<b>1,677</b>	<b>1,502</b>	<b>1,515</b>	<b>1,486</b>	<b>1,418</b>
Minnesota *	19	1,571	1,542	1,638	1,462	1,400 *	1,406 *	1,415 *	1,430 *	1,480 *	1,527 *
Ohio *	21	1,445	1,558	1,642	1,718 *	1,146 *	1,158 *	1,156 *	1,118 *	1,087 *	1,091 *
Georgia	28	1,045	1,100	1,144	1,087	987	971	996	986	992	1,029
Florida *	35	608	711	661	756	710	780	812 *	889 *	961 *	1,038 *
Texas	36	608	654	680	682	365	379	389	410	383	383
Utah	37	572	693	827	899	866	720	792	772	824	921
North Carolina	38	551	635	700	686	581	586	531	611	659	721
South Dakota *	39	525	421	444	561	482	493	618	694	641 *	652 *
Missouri	42	382	397	378	398	413	464	487	532	579	574
Iowa	43	349	408	392	408	157	150	207	219	228	239
Indiana *	44	334	356	366	217	233	251	270	295	310	463 *
Tennessee*	45	312	271	294	285	266	292	305	312	322	298 *
Median All States		1,214	1,189	1,178	1,179	1,039	1,071	1,068	987	1,006	1,025
AAA Median		590	674	690	721	646	653	705	733	742	821
AAA Average		1,058	1,093	1,106	1,080	911	901	906	884	893	910

\* State was not triple triple A during entire 2015-2024 period.

<sup>(1)</sup> Beginning in 2021 Moody's revised calculation to be based on fiscal year-end. Prior years were based on calendar year-end.

#### Net Tax-Supported Debt Per Capita Virginia Versus Moody's U.S. 50-State Median and other AAA States 2015 – 2024



# REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE

## December 18, 2025

### AAA/Aaa/AAA STATE DEBT BURDENS FROM 2015-2024 PROVIDED BY MOODY'S INVESTORS SERVICE

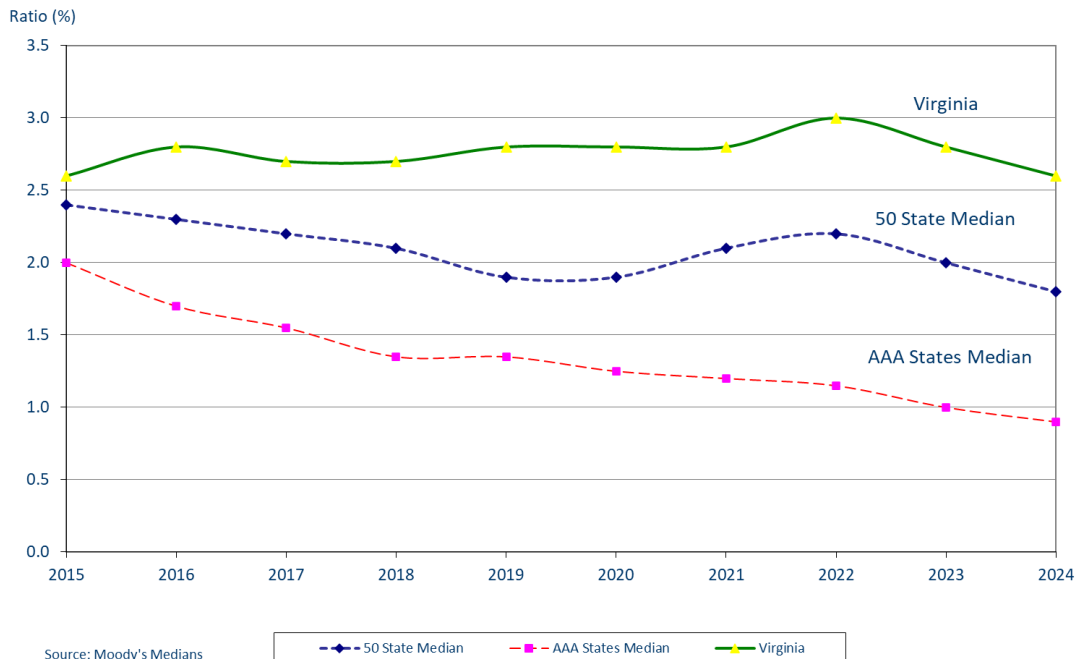
#### Net Tax-Supported Debt as Percent of Personal Income

	2024 Ranking	2024	2023	2022	2021 (1)	2020	2019	2018	2017	2016	2015
Delaware	4	6.5 %	6.8 %	6.9 %	7.0 %	6.0 %	6.0 %	6.1 %	6.1 %	6.3 %	6.2 %
<b>VIRGINIA</b>	<b>16</b>	<b>2.6</b>	<b>2.8</b>	<b>3.0</b>	<b>2.8</b>	<b>2.8</b>	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>	<b>2.8</b>	<b>2.6</b>
Ohio *	21	2.3	2.5	2.8	3.0 *	2.1 *	2.3 *	2.5 *	2.5 *	2.5 *	2.6 *
Minnesota *	22	2.1	2.1	2.4	2.2	2.3 *	2.4 *	2.5 *	2.6 *	2.8 *	2.9 *
Georgia	28	1.7	1.8	2.0	2.0	1.9	2.0	2.1	2.2	2.3	2.5
Utah	35	0.9	1.1	1.4	1.6	1.7	1.5	1.7	1.7	1.9	2.3
Florida *	36	0.9	1.0	1.0	1.2	1.3	1.5	1.6 *	1.8 *	2.1 *	2.3 *
Texas	37	0.9	1.0	1.1	1.1	0.7	0.7	0.8	0.8	0.8	0.8
North Carolina	38	0.9	1.0	1.2	1.2	1.2	1.2	1.1	1.4	1.5	1.7
South Dakota *	39	0.7	0.8	0.8	0.9	0.8	0.9	0.9	1.1	1.0 *	1.1 *
Missouri	42	0.6	0.6	0.7	0.7	0.8	1.0	1.0	1.2	1.3	1.4
Iowa	43	0.5	0.6	0.7	0.7	0.3	0.3	0.4	0.5	0.5	0.5
Indiana*	44	0.5	0.6	0.6	0.4	0.5	0.5	0.6	0.6	0.7	0.8 *
Tennessee*	45	0.5	0.4	0.5	0.5	0.5	0.6	0.7	0.7	0.7	0.7 *
Median All States		1.8 %	2.0 %	2.2 %	2.1 %	1.9 %	1.9 %	2.1 %	2.2 %	2.3 %	2.4 %
AAA Median		0.9	1.0	1.2	1.2	1.3	1.4	1.4	1.6	1.7	2.0
AAA Average		1.5	1.7	1.8	1.8	1.6	1.7	1.8	1.9	1.9	2.0

\* State was not triple triple A during entire 2015-2024 period.

(1) Beginning in 2021 Moody's revised calculation to be based on fiscal year-end. Prior years were based on calendar year-end.

#### Net Tax-Supported Debt as Percentage of Personal Income Virginia Versus Moody's U.S. 50-State Median and other AAA States 2015 - 2024





# **REPORT OF THE DEBT CAPACITY ADVISORY COMMITTEE**

## **December 18, 2025**

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

In terms of total NTSD, California remains at the top of the list with \$101.1 billion outstanding, followed by New York with \$65.3 billion. Nebraska remains at the bottom of the list with total NTSD of only \$85.6 million. Virginia's reported NTSD increased in the 2025 report by approximately \$200 million from \$17.7 billion to \$17.9 billion outstanding. Virginia was ranked as the 11<sup>th</sup> highest amongst all states in total NTSD in the 2025 report, up from 12<sup>th</sup> in the previous report. However, it is important to reiterate that Virginia has the 4<sup>th</sup> lowest capital asset depreciation ratio in the nation, meaning Virginia's future capital asset needs are lower than those 46 other states, reflecting Virginia's substantial commitment to financing its capital and infrastructure needs during recent periods of historically low interest rates.

### **Summary**

The Commonwealth's debt capacity increased from \$1.31 billion in fiscal year 2024 to \$1.49 billion in fiscal year 2025. The increase in capacity is a result of multiple factors, but is primarily driven by stronger general fund revenue projections in the longer range of the December 2025 forecast which more than offset the additional tax-supported debt service amounts that result from the increased authorizations of tax-supported debt in fiscal year 2025.

Virginia ended fiscal year 2025 in yet another historically strong fiscal position with reserve funds near all-time highs and revenue growth that continued to outpace budget expectations. While the fears of a recession have subsided, relevant to this time a year ago, there are still a multitude of factors that could lead to an unexpected economic downturn of which the Commonwealth must remain cognizant as it moves into the next budget cycle. Despite the Commonwealth's strong fiscal position, it remains as important as ever that Virginia continue to exercise fiscal prudence in its capital planning.

# **Appendix A**

## **Debt Capacity Calculation, Sensitivity Analysis and Moral Obligation Update**

**December 18, 2025**

## **Debt Capacity Model – An Explanation of Model and Assumptions**

### **Virginia's Debt Capacity Measure:**

- Calculation:
  - Tax-Supported Debt Service  $\leq$  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 December Official Forecast.

### **Model Assumptions:**

- Term and structure:
  - 20-year bonds with level debt service payments.
  - Interest rate based on the average of the last twelve quarters of the Bond Buyer 11 Bond Index for GO debt (4.01%) plus 25 basis points for 9(d) debt (4.26%).

### **Model Includes:**

- Blended Revenues from Official Forecast:
  - General fund revenues, certain recurring non-general fund transfers including ABC profits, Virginia Healthcare Fund revenues, and certain transportation revenues, which include the revenues of the TTF and specific revenues related to the Route 58 Program and the Special Structures Program.
- Actual and Projected Debt Service:
  - Actual debt service on all issued tax-supported debt, including long-term leases, SBITA's and installment purchases.
  - Debt service on authorized but unissued tax-supported debt.
    - Level debt service payments (except 9(b) General Obligation debt).
    - 9(b) General Obligation debt is amortized on a level principal basis.
    - VCBA Equipment Notes amortized over 7-year term.
    - CTB Bonds amortized over 25-year term.

### **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 TTF.
- Obligations issued by the Virginia Public Building Authority and the Virginia College Building Authority secured, in whole or in part, by general fund appropriations.
- Long-Term lease and SBITA liabilities that are paid for directly by the general fund or from general fund appropriations.

- Installment purchases (80% of total of first year amounts in Commonwealth ACFR for both primary government and component units).
- Obligations for which the debt service is derived from payments received from the Commonwealth on a long-term 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 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 Model 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)

	<u>9(b)</u>	<u>VPBA</u>	<u>VCBA 21st Century Equipment</u>	<u>VCBA 21st Century Projects</u>	<u>CPR Transportation</u>	<u>NVTD Transportation</u>	<u>Route 58 Transportation</u>	<u>Special Structures Transportation</u>	<u>VPA</u>	<u>Total</u>
Authorized & Unissued as of June 30, 2025	\$ -	\$ 1,254.3	\$ 192.8	\$ 812.6	\$ 146.6	\$ 24.7	\$ 226.4	\$ 1,000.0	\$ -	\$ 3,657.5
Issued Jul 1 - Dec 31, 2025	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Assumed Issued:										
FY 2026	\$ -	\$ 525.0	\$ 192.8	\$ 200.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 917.8
FY 2027	\$ -	\$ 600.0	\$ -	\$ 275.0	\$ 73.3	\$ -	\$ 226.4	\$ -	\$ -	\$ 1,174.7
FY 2028	\$ -	\$ 129.3	\$ -	\$ 337.6	\$ -	\$ -	\$ -	\$ 66.7	\$ -	\$ 533.6
FY 2029	\$ -	\$ -	\$ -	\$ -	\$ 73.3	\$ -	\$ -	\$ 148.9	\$ -	\$ 222.2
FY 2030	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180.8	\$ -	\$ 180.8
FY 2031	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 141.8	\$ -	\$ 141.8
FY 2032	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98.6	\$ -	\$ 98.6
FY 2033	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 62.4	\$ -	\$ 62.4
FY 2034	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44.1	\$ -	\$ 44.1
FY 2035	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45.1	\$ -	\$ 45.1
Total Planned	\$ -	\$ 1,254.3	\$ 192.8	\$ 812.6	\$ 146.6	\$ -	\$ 226.4	\$ 788.4	\$ -	\$ 3,421.2
Subtotal Issued & Planned	\$ -	\$ 1,254.3	\$ 192.8	\$ 812.6	\$ 146.6	\$ -	\$ 226.4	\$ 788.4	\$ -	\$ 3,421.2
Authorized Debt Assumed Unissued <sup>1</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24.7	\$ -	\$ 211.6	\$ -	\$ 236.3

<sup>(1)</sup> NVTD authorized debt is assumed not to be issued. Special Structures Transportation debt authorization is revolving, but total par amount outstanding may not exceed \$1 billion and annual issuance is limited to no more than \$200 million. Special Structures Transportation bonds that are assumed unissued are expected to be issued once Special Structures revenues are sufficient to allow for the additional bonds to be issued.

\* 9(c) Debt is not included in the table above since it is excluded from the Model.

## **Debt Capacity Model – An Explanation of Solution Pages**

### **Column Descriptions:**

(1) **Blended Revenues** include all general fund, certain recurring non-general fund transfers including ABC profits, Virginia Healthcare Fund revenues, and certain transportation revenues, which include revenues of the TTF and specific revenues of the Route 58 Program and the Special Structures Program.

(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 (6/30/2025), excluding (i) 9(c) debt and (ii) the 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 Blended Revenues required for payments on currently issued tax-supported debt included in the model.

(Column 4 = Column 3 ÷ Column 1)

(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.

(Column 6 = (Column 3 + Column 5) ÷ Column 1)

(7) **Net Capacity to Pay Debt Service** is the capacity that remains to pay any additional debt service related to subsequent authorized and issued debt and is the Base Capacity to Pay Debt Service less Annual Payments for Debt Service on Debt Issued and less Annual Payments for Debt Service on All Planned Debt Issuances.

(Column 7 = Column 2 – Column 3 – Column 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 Amount of Additional Debt that May be Issued, given the amount is 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 Issued.

(Column 10 = Column 7 – Column 9)

**(11) Total Debt Service as a % of Revenues** is the percentage of Blended Revenues used for 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 Amount of Additional Debt that May be Issued.

(Column 11 = (Column 3 + Column 5 + Column 9) ÷ Column 1)

**Base 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 \$1.49 billion.

DEBT CAPACITY MODEL											
(Dollars in Millions)											
December 18, 2025											
Base Model Solution											
Debt Capacity Maximum Ratio											
Debt Service as a % of Revenue =											
5.0%											
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
	Blended	Base	Annual	Actual	Annual	Actual &	Net	Amount of	Debt Service	Remaining	Total
Fiscal Year	Revenues	Capacity	Payments for	Outstanding	Payments for	Projected	Capacity	Additional	on Amount of	Capacity	Debt Service
		to Pay	Debt Service	Debt Service	on All Planned	Debt Service	to Pay	Debt that may	Additional Debt that may	to Pay	as a % of
		Debt Service	on Debt Issued	as a % of	Debt Issuances	as a % of	Debt Service	Be Issued	Be Issued	Debt Service	Revenues
2016	20,382.70	1,019.14	904.30	4.44%	N/A	4.44%	114.83	N/A	N/A	114.83	4.44%
2017	21,162.90	1,058.15	988.33	4.67%	N/A	4.67%	69.82	N/A	N/A	69.82	4.67%
2018	22,351.70	1,117.59	957.97	4.29%	N/A	4.29%	159.62	N/A	N/A	159.62	4.29%
2019	23,858.40	1,192.92	1,008.23	4.23%	N/A	4.23%	184.69	N/A	N/A	184.69	4.23%
2020	24,308.76	1,215.44	1,037.16	4.27%	N/A	4.27%	178.28	N/A	N/A	178.28	4.27%
2021	28,136.78	1,406.84	1,043.55	3.71%	N/A	3.71%	363.29	N/A	N/A	363.29	3.71%
2022	32,587.44	1,629.37	1,101.44	3.38%	N/A	3.38%	527.94	N/A	N/A	527.94	3.38%
2023	31,676.04	1,583.80	1,184.01	3.74%	N/A	3.74%	399.79	N/A	N/A	399.79	3.74%
2024	32,165.53	1,608.28	1,233.69	3.84%	N/A	3.84%	374.59	N/A	N/A	374.59	3.84%
2025	35,589.91	1,779.50	1,257.25	3.53%	N/A	3.53%	522.25	N/A	N/A	522.25	3.53%
2026	37,133.16	1,856.66	1,243.78	3.35%	217.25	3.93%	395.63	4,515.75	332.998	62.63	4.83%
2027	37,135.55	1,856.78	1,202.15	3.24%	321.63	4.10%	333.00	0.00	332.998	0.00	5.00%
2028	38,274.79	1,913.74	1,137.35	2.97%	390.45	3.99%	385.94	717.95	385.940	0.00	5.00%
2029	39,754.53	1,987.73	1,085.54	2.73%	439.20	3.84%	462.99	1,044.85	462.989	0.00	5.00%
2030	41,460.32	2,073.02	1,028.64	2.48%	450.85	3.57%	593.52	1,770.12	593.520	0.00	5.00%
2031	43,300.08	2,165.00	955.03	2.21%	459.99	3.27%	749.99	2,121.81	749.985	0.00	5.00%
2032	45,135.25	2,256.76	895.24	1.98%	466.34	3.02%	895.19	1,969.06	895.186	0.00	5.00%
2033	46,880.86	2,344.04	833.83	1.78%	470.36	2.78%	1,039.85	1,961.82	1,039.854	0.00	5.00%
2034	48,591.12	2,429.56	807.93	1.66%	441.60	2.57%	1,180.03	786.19	1,097.828	82.20	4.83%
2035	50,348.99	2,517.45	755.55	1.50%	444.51	2.38%	1,317.39	0.00	1,097.828	219.57	4.56%
							10 Year Average:	\$1,488.76	2 Yrs Excess Avg Capacity:	\$2,977.51	



DEBT CAPACITY MODEL											
(Dollars in Millions)											
December 18, 2025											
Base Model Average Solution											
Debt Service as a % of Revenue = <span style="border: 1px solid black; padding: 2px;">5.0%</span>											
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]
	Blended	Base	Annual	Actual	Annual	Actual &	Net	Amount of	Debt Service	Remaining	Total
Fiscal Year	Revenues	Capacity	Payments for	Outstanding	Payments for	Projected	Capacity	Additional	on Amount of	Capacity	Debt Service
		to Pay	Debt Service	Debt Service	on All Planned	Debt Service	to Pay	Debt that may	Additional Debt that may	to Pay	as a % of
		Debt Service	on Debt Issued	as a % of	Debt Issuances	as a % of	Debt Service	Be Issued	Be Issued	Debt Service	Revenues
2016	20,382.70	1,019.14	904.30	4.44%	N/A	4.44%	114.83	N/A	N/A	114.83	4.44%
2017	21,162.90	1,058.15	988.33	4.67%	N/A	4.67%	69.82	N/A	N/A	69.82	4.67%
2018	22,351.70	1,117.59	957.97	4.29%	N/A	4.29%	159.62	N/A	N/A	159.62	4.29%
2019	23,858.40	1,192.92	1,008.23	4.23%	N/A	4.23%	184.69	N/A	N/A	184.69	4.23%
2020	24,308.76	1,215.44	1,037.16	4.27%	N/A	4.27%	178.28	N/A	N/A	178.28	4.27%
2021	28,136.78	1,406.84	1,043.55	3.71%	N/A	3.71%	363.29	N/A	N/A	363.29	3.71%
2022	32,587.44	1,629.37	1,101.44	3.38%	N/A	3.38%	527.94	N/A	N/A	527.94	3.38%
2023	31,676.04	1,583.80	1,184.01	3.74%	N/A	3.74%	399.79	N/A	N/A	399.79	3.74%
2024	32,165.53	1,608.28	1,233.69	3.84%	N/A	3.84%	374.59	N/A	N/A	374.59	3.84%
2025	35,589.91	1,779.50	1,257.25	3.53%	N/A	3.53%	522.25	N/A	N/A	522.25	3.53%
2026	37,133.16	1,856.66	1,243.78	3.35%	217.25	3.93%	395.63	0.00	0.000	395.63	3.93%
2027	37,135.55	1,856.78	1,202.15	3.24%	321.63	4.10%	333.00	1,488.76	109.783	223.22	4.40%
2028	38,274.79	1,913.74	1,137.35	2.97%	390.45	3.99%	385.94	1,488.76	219.566	166.37	4.57%
2029	39,754.53	1,987.73	1,085.54	2.73%	439.20	3.84%	462.99	1,488.76	329.348	133.64	4.66%
2030	41,460.32	2,073.02	1,028.64	2.48%	450.85	3.57%	593.52	1,488.76	439.131	154.39	4.63%
2031	43,300.08	2,165.00	955.03	2.21%	459.99	3.27%	749.99	1,488.76	548.914	201.07	4.54%
2032	45,135.25	2,256.76	895.24	1.98%	466.34	3.02%	895.19	1,488.76	658.697	236.49	4.48%
2033	46,880.86	2,344.04	833.83	1.78%	470.36	2.78%	1,039.85	1,488.76	768.480	271.37	4.42%
2034	48,591.12	2,429.56	807.93	1.66%	441.60	2.57%	1,180.03	1,488.76	878.263	301.76	4.38%
2035	50,348.99	2,517.45	755.55	1.50%	444.51	2.38%	1,317.39	1,488.76	988.045	329.35	4.35%
							10 Year Average:	\$1,488.76			

# DEBT CAPACITY MODEL REVENUE DATA

December 2025

(Dollars In Millions)

		General	Transportation	General	Transportation	Virginia	Total	Blended
	Fiscal Year	Fund	Revenue <sup>(3)</sup>	Fund	Revenue	Health Care	Blended	Revenue
				Growth	Growth	Fund	Revenue <sup>(6)</sup>	Growth
								Rate <sup>(7)</sup>
2016	Actual 2016	18,601.70 (1)	1,367.50 (1)	1.26% (1)	3.25% (1)	413.50 (1)	20,382.70	1.71%
2017	Actual 2017	19,348.40 (1)	1,431.40 (1)	4.01% (1)	4.67% (1)	383.10 (1)	21,162.90	3.83%
2018	Actual 2018	20,509.10 (1)	1,440.60 (1)	6.00% (1)	0.64% (1)	402.00 (1)	22,351.70	5.62%
2019	Actual 2019	21,965.50 (1)	1,497.00 (1)	7.10% (1)	3.92% (1)	395.90 (1)	23,858.40	6.74%
2020	Actual 2020	22,441.70 (1)	1,532.06 (1)	2.17% (1)	2.34% (1)	335.00 (1)	24,308.76	1.89%
2021	Actual 2021	25,637.10 (1)	1,885.78 (1)	14.24% (1)	23.09% (1)	613.90 (1)	28,136.78	15.75%
2022	Actual 2022	29,749.30 (1)	2,152.84 (1)	16.04% (1)	14.16% (1)	685.30 (1)	32,587.44	15.82%
2023	Actual 2023	28,725.50 (1)	2,242.04 (1)	-3.44% (1)	4.14% (1)	708.50 (1)	31,676.04	-2.80%
2024	Actual 2024	29,460.80 (1)	2,262.23 (1)	2.56% (1)	0.90% (1)	442.50 (1)	32,165.53	1.55%
2025	Actual 2025	32,734.30 (1)	2,371.91 (1)	11.11% (1)	4.85% (1)	483.70 (1)	35,589.91	10.65%
2026	Forecasted for 2026	34,118.59 (2)	2,603.47 (4)	4.23% (2)	9.76% (4)	411.10 (5)	37,133.16	4.34%
2027	Forecasted for 2027	34,047.07 (2)	2,689.38 (4)	-0.21% (2)	3.30% (4)	399.10 (5)	37,135.55	0.01%
2028	Forecasted for 2028	35,119.55 (2)	2,766.84 (4)	3.15% (2)	2.88% (4)	388.40 (5)	38,274.79	3.07%
2029	Forecasted for 2029	36,545.18 (2)	2,831.05 (4)	4.06% (2)	2.32% (4)	378.30 (5)	39,754.53	3.87%
2030	Forecasted for 2030	38,184.05 (2)	2,907.27 (4)	4.48% (2)	2.69% (4)	369.00 (5)	41,460.32	4.29%
2031	Forecasted for 2031	39,951.94 (2)	2,987.84 (4)	4.63% (2)	2.77% (4)	360.30 (5)	43,300.08	4.44%
2032	Forecasted for 2032	41,722.58 (2)	3,060.48 (4)	4.43% (2)	2.43% (4)	352.20 (5)	45,135.25	4.24%
2033	Forecasted for 2033	43,438.87 (2)	3,089.79 (4)	4.11% (2)	0.96% (4)	352.20 (5)	46,880.86	3.87%
2034	Forecasted for 2034	45,134.66 (2)	3,104.26 (4)	3.90% (2)	0.47% (4)	352.20 (5)	48,591.12	3.65%
2035	Forecasted for 2035	46,873.55 (2)	3,123.24 (4)	3.85% (2)	0.61% (4)	352.20 (5)	50,348.99	3.62%

(1) Department of Taxation and Department of Transportation.

(2) December General Fund Forecast for FY 2026-2035, including A.B.C. Profits, 0.375% sales tax (enacted 2013), and certain recurring Transfers per the Appropriation Act.

(3) Includes TTF revenues, Route 58 Program revenues, and Special Structures Program revenues. Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts, or Toll Revenues.

(4) Provided by Department of Transportation based on December Commonwealth Transportation Fund Forecast for FY 2026-2035.

(5) December Virginia Health Care Fund Forecast for FY 2026-2035.

(6) Total Blended Revenue = GF + Transportation + Virginia Health Care Fund.

(7) Blended Revenue Growth Rate = (Current FY Total Blended Revenue / Prior FY Total Blended Revenue) - 1.

## **Debt Capacity Sensitivity Analysis**

### **2-Year Reserve Excess Capacity Sensitivity**

- The Base Model solution provides for average debt capacity of \$1.49 billion over the model period, with two years of average capacity, beyond the 10-year model period.
  - If the Base Model solution is altered to reduce the two years of excess capacity to one year of excess capacity, the resulting debt capacity is \$1.62 billion.
  - If the Base 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 \$1.79 billion.

### **Revenue Sensitivity**

- If the Base Model solution is altered to increase or decrease Blended Revenues, the following incremental average debt capacity changes occur:
  - Assuming a change of \$100 million in each and every year, the incremental change is \$5.65 million.
  - Assuming a 1% change of revenues in each and every year, the incremental change is \$28.45 million.

### **Interest Rate Sensitivity**

- If the Base Model solution is altered to change interest rates, the following changes to average debt capacity occur:
  - Add 100 basis points to the Base Model rate, and average capacity decreases by \$137.21 million to \$1.35 billion.
  - Subtract 100 basis points from the Base Model rate, and average capacity increases by \$155.87 million to \$1.64 billion.
- The exhibit on the following page highlights the impacts of various interest rates, ranging from 2.75% to 5.75%, on the Commonwealth's debt capacity. The Base Model rate of 4.26% is highlighted in light blue.

## DCAC - 2025 Model - Interest Rate Sensitivity Stress Testing

Interest Rate	Annual Capacity Change		Annual Debt Capacity
	Relative to Base Model Rate		
2.75%	\$	243.35	\$ 1,732.10
3.25%	\$	157.36	\$ 1,646.11
3.75%	\$	76.81	\$ 1,565.57
4.26%		N/A	\$ 1,488.76
4.75%	\$	(69.53)	\$ 1,419.22
5.25%	\$	(136.06)	\$ 1,352.70
5.75%	\$	(198.58)	\$ 1,290.18

### Severe Economic Downturn Scenario Analysis

- If the Base Model Rate solution is altered to project a severe economic downturn, the resulting debt capacity is \$1.28 billion, a decline of \$210.47 million.
- This scenario assumes an early 2026 recession which causes budgeted general fund and transportation revenues to grow at half of their projected growth rates in fiscal year 2026 before declining sharply in fiscal year 2027 by 5.39%. The rate of decline in fiscal year 2027 was determined through consultation with the Commonwealth's financial advisor and is based on Virginia's historical revenue declines during the last three major recessions. VHCF revenues are projected to remain at the official December 2025 forecast levels, as these revenues are already projected to decline substantially going forward. The revenues used to model this scenario are presented below along with footnotes containing the assumptions for revenue growth.

#### DEBT CAPACITY MODEL REVENUE DATA

December 2025

Severe Economic Downturn Scenario

(Dollars In Millions)

								Blended Revenue
		General	Transportation	General	Transportation	Virginia	Total	Growth
		Fund	Revenue <sup>(4)</sup>	Fund	Revenue	Health Care	Blended	Rate <sup>(6)</sup>
Fiscal Year		Fund	Revenue <sup>(4)</sup>	Growth	Growth	Fund	Revenue <sup>(5)</sup>	
2026	Forecasted for 2026	33,426.45 <sup>(1)</sup>	2,487.69 <sup>(1)</sup>	2.11% <sup>(1)</sup>	4.88% <sup>(1)</sup>	411.10 <sup>(3)</sup>	36,325.24	2.07%
2027	Forecasted for 2027	31,624.76 <sup>(2)</sup>	2,353.60 <sup>(2)</sup>	-5.39% <sup>(2)</sup>	-5.39% <sup>(2)</sup>	399.10 <sup>(3)</sup>	34,377.47	-5.36%
2028	Forecasted for 2028	32,620.94 <sup>(3)</sup>	2,421.39 <sup>(3)</sup>	3.15% <sup>(3)</sup>	2.88% <sup>(3)</sup>	388.40 <sup>(3)</sup>	35,430.73	3.06%
2029	Forecasted for 2029	33,945.14 <sup>(3)</sup>	2,477.59 <sup>(3)</sup>	4.06% <sup>(3)</sup>	2.32% <sup>(3)</sup>	378.30 <sup>(3)</sup>	36,801.03	3.87%
2030	Forecasted for 2030	35,467.42 <sup>(3)</sup>	2,544.29 <sup>(3)</sup>	4.48% <sup>(3)</sup>	2.69% <sup>(3)</sup>	369.00 <sup>(3)</sup>	38,380.70	4.29%
2031	Forecasted for 2031	37,109.53 <sup>(3)</sup>	2,614.80 <sup>(3)</sup>	4.63% <sup>(3)</sup>	2.77% <sup>(3)</sup>	360.30 <sup>(3)</sup>	40,084.63	4.44%
2032	Forecasted for 2032	38,754.19 <sup>(3)</sup>	2,678.36 <sup>(3)</sup>	4.43% <sup>(3)</sup>	2.43% <sup>(3)</sup>	352.20 <sup>(3)</sup>	41,784.76	4.24%
2033	Forecasted for 2033	40,348.38 <sup>(3)</sup>	2,704.02 <sup>(3)</sup>	4.11% <sup>(3)</sup>	0.96% <sup>(3)</sup>	352.20 <sup>(3)</sup>	43,404.60	3.88%
2034	Forecasted for 2034	41,923.52 <sup>(3)</sup>	2,716.68 <sup>(3)</sup>	3.90% <sup>(3)</sup>	0.47% <sup>(3)</sup>	352.20 <sup>(3)</sup>	44,992.40	3.66%
2035	Forecasted for 2035	43,538.70 <sup>(3)</sup>	2,733.29 <sup>(3)</sup>	3.85% <sup>(3)</sup>	0.61% <sup>(3)</sup>	352.20 <sup>(3)</sup>	46,624.19	3.63%

(1) Based on official December 2025 forecast and assumes FY2026 growth rate is cut in half.

(2) 5.39% decline in revenues based on average revenue declines for the Commonwealth during the previous three recessions (2002, 2009, 2014).

(3) Assumes projected growth rate from official December 2025 forecast.

(4) Includes TIF revenues, Route 58 Program revenues, and Special Structures Program revenues. Does not include Highway Maintenance and Operating Fund, Federal Grants and Contracts, or Toll Revenues.

(5) Total Blended Revenue = GF + Transportation + Virginia Health Care Fund.

(6) Blended Revenue Growth Rate = (Current FY Total Blended Revenue / Prior FY Total Blended Revenue) - 1.

## **Debt of the Commonwealth** **(Dollars in Thousands)**

	<b>As of</b> <b><u>June 30 2025</u></b>	<b>As of</b> <b><u>June 30 2024</u></b>
<b>Tax-Supported Debt</b>		
9(b) General Obligation <sup>(1)</sup>	\$ 76,525	\$ 120,065
9(c) General Obligation - Higher Education <sup>(2)</sup>	921,820	929,445
9(c) General Obligation - Transportation <sup>(2)</sup>	-	-
9(c) General Obligation - Parking Facilities <sup>(2)</sup>	2,918	3,582
Commonwealth Transportation Board	2,487,593	2,632,683
Virginia Public Building Authority	3,645,519	3,524,062
Virginia Port Authority	340,040	353,816
Virginia College Building Authority - 21st Century & Equipment	5,397,855	5,872,402
Long-Term Lease Liabilities <sup>(3)</sup>	645,956	614,948
Long-Term Subscription-Based Information Technology Arrangements <sup>(4)</sup>	303,855	237,263
Installment Purchases	305,324	309,686
Subtotal Tax Supported Debt	<u>\$ 14,127,405</u>	<u>\$ 14,597,952</u>
<b>Other Tax-Supported Debt</b>		
Compensated Absences <sup>(2)</sup>	\$ 1,111,695	\$ 809,085
Pension Liability <sup>(2)</sup>	5,942,486	6,030,110
OPEB Liability <sup>(2)</sup>	1,641,180	1,788,543
Pollution Remediation Liability <sup>(2)</sup>	2,810	4,115
Other Liabilities <sup>(2)</sup>	22,626	23,575
Subtotal Tax Supported Debt Not Included in Capacity Model	<u>\$ 8,720,797</u>	<u>\$ 8,655,428</u>
<b>Total Tax-Supported Debt</b>	<u><u>\$ 22,848,202</u></u>	<u><u>\$ 23,253,380</u></u>

Source: Department of the Treasury and Department of Accounts

<sup>(1)</sup> Voter approved

<sup>(2)</sup> Not Included in Debt Capacity Model

<sup>(3)</sup> GASB 87 eliminated Capital Leases beginning FY22. All leases over 12 months now considered Long-Term Lease

<sup>(4)</sup> GASB 96 provided guidelines on the capitalization and recognition of related liabilities for subscription based IT assets beginning FY23

## **Debt of the Commonwealth** **(Dollars in Thousands)**

	<b><u>As of</u></b> <b><u>June 30 2025</u></b>	<b><u>As of</u></b> <b><u>June 30, 2024</u></b>
<b>Debt Not Supported by Taxes <sup>(1)</sup></b>		
<b><i>Moral Obligation / Contingent Liability Debt</i></b>		
Virginia Resources Authority	\$ 919,227	\$ 917,954
Virginia Housing Development Authority	-	-
Virginia Public School Authority - 1997 Resolution	2,276,050	2,318,505
Virginia Public School Authority - School Tax Credit Bond Program	355,750	359,566
Virginia Public School Authority - Equipment Technology Notes	197,510	195,335
Total Moral Obligation/Contingent Liability Debt	<u>\$ 3,748,537</u>	<u>\$ 3,791,360</u>
<b><i>Other Debt Not Supported By Taxes</i></b>		
9(d) Higher Education	\$ 4,489,946	\$ 4,488,843
Virginia College Building Authority - Pooled Bond Program	1,273,120	1,351,660
Virginia Public School Authority - Stand Alone Program	1,509,675	1,232,375
Virginia Housing Development Authority	7,551,092	6,266,161
Virginia Port Authority	244,316	251,788
Hampton Roads Sanitation District Commission	1,854,322	1,317,446
Hampton Roads Transportation Accountability Commission	2,976,621	2,799,940
Virginia Resources Authority	2,302,047	2,331,761
Grant Anticipation Notes (GARVEES)	792,465	768,265
I-81 Revenue Bonds	111,833	114,152
Notes Payable	295,037	306,904
Other Long-Term Debt	419,713	339,935
Foundations	1,825,291	1,643,054
Pension Liability	184,272	188,200
OPEB Liability	51,412	56,743
Long-Term Lease Liabilities <sup>(2)</sup>	5,050,898	5,043,742
Long-Term Subscription-Based Information Technology Arrangements <sup>(3)</sup>	420,094	374,475
Compensated Absences	18,055	15,082
Installment Purchase Obligations	-	-
Tuition Benefits Payable	1,184,289	1,301,781
Lottery Prizes Payable	187,539	192,722
Total Other Debt Not Supported By Taxes	<u>\$ 32,742,037</u>	<u>\$ 30,385,029</u>
Grand Total of Tax Supported Debt and Debt Not Supported By Taxes	<b>\$ 59,338,776</b>	<b>\$ 57,429,769</b>

Source: Department of the Treasury and Department of Accounts

<sup>(1)</sup> Not Included In Debt Capacity Model

<sup>(2)</sup> GASB 87 eliminated Capital Leases beginning FY22. All leases over 12 months now considered Long-Term Lease

<sup>(3)</sup> GASB 96 provided guidelines on the capitalization and recognition of related liabilities for subscription based IT assets beginning FY23

**COMPUTATION OF LEGAL DEBT LIMIT AND DEBT MARGIN**  
(in thousands)

	Fiscal Year Ended June 30,		
	<u>2023</u>	<u>2024</u>	<u>2025</u>
<b><u>Taxes</u></b>			
Individual and Fiduciary Income [1]	\$20,032,168	\$20,310,406	\$21,892,442
Corporation Income [2]	2,031,120	1,907,065	1,878,586
State Sales and Use [3]	5,291,556	5,283,496	5,400,646
Total	<u>\$27,354,844</u>	<u>\$27,500,967</u>	<u>\$29,171,674</u>
Average tax revenues for the three fiscal years			<u>\$28,009,162</u>
<hr/>			
Section 9(a)(2) General Obligation Debt Issuance Limit and Margin [4]:			
Debt Issuance Limit:			
30% of 1.15 times annual tax revenues for fiscal year 2025			\$10,064,228
Less 9(a)(2) Bonds Outstanding:			<u>0</u>
Debt Issuance Margin for Section 9(a)(2) General Obligation Bonds			<u>\$10,064,228</u>
<hr/>			
Section 9(b) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			\$32,210,536
Less 9(b) Bonds Outstanding at June 30, 2025:			
Public Facilities Bonds [5]		\$76,525	
Transportation Facilities Refunding Bonds [5]		0	
Bond Anticipation Notes		<u>0</u>	
Total 9(b) Bonds Outstanding at June 30, 2025			<u>76,525</u>
Debt Issuance Margin for Section 9(b) General Obligation Bonds			<u>\$32,134,011</u>
<hr/>			
Debt Authorization Limit:			
25% of 1.15 times average tax revenues for three fiscal years as calculated above			\$8,052,634
Less 9(b) debt authorized during the three prior fiscal years			<u>0</u>
Maximum additional 9(b) debt that may be authorized by the General Assembly (subject to referendum):			<u>\$8,052,634</u>
<hr/>			
Section 9(c) General Obligation Debt Issuance Limit and Margin:			
Debt Issuance Limit:			
1.15 times the average tax revenues for three fiscal years as calculated above			\$32,210,536
Less 9(c) Bonds Outstanding at June 30, 2025:			
Parking Facilities [5]		\$2,918	
Transportation Facilities [5]		0	
Higher Educational Institutions [5]		921,820	
Bond Anticipation Notes		<u>0</u>	
Total 9(c) Bonds Outstanding at June 30, 2025			<u>924,738</u>
Debt Issuance Margin for Section 9(c) General Obligation Bonds			<u>\$31,285,798</u>

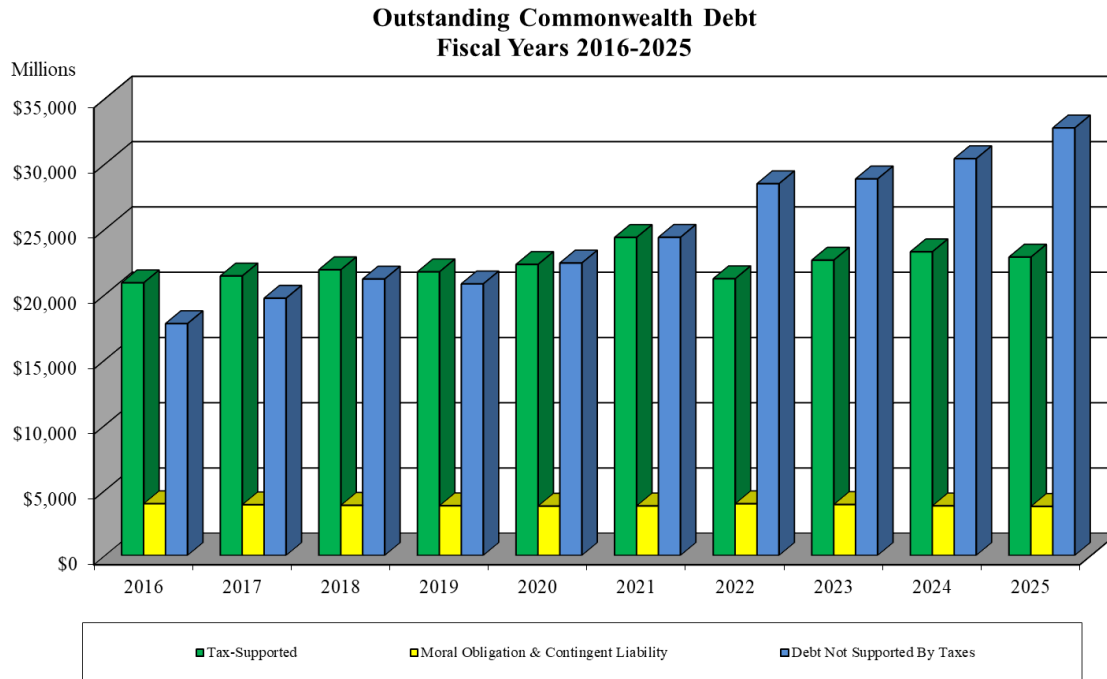
[1] Includes taxes imposed pursuant to Articles 2 and 9 of Chapter 3, Title 58.1 of the Code of Virginia.

[2] Includes taxes imposed pursuant to Article 10 of Chapter 3, Title 58.1 of the Code of Virginia.

[3] Includes taxes imposed pursuant to Chapter 6, Title 58.1 of the Code of Virginia, less taxes identified in Sections 58.1-605 and 58.1-638.

[4] Debt limit applies only to debt authorized pursuant to Article X, Section 9(a)(2) of the Constitution of Virginia.

[5] Net of unamortized discounts and premiums.



## Moral Obligation and Contingent Liability Debt

### 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 and requests 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 moral obligation debt in tax-supported debt ratios as long as these bonds are self-supporting.

The Virginia Resources Authority (“VRA”) is the Commonwealth’s only current moral obligation debt issuer. The VRA issues moral obligation bonds under its financing programs to provide low-cost financing to localities for water, wastewater, public safety, transportation, and other General Assembly authorized project categories. Due to increased demand for VRA’s financing programs, the 2009 General Assembly approved an increase to VRA’s moral obligation debt limit from \$900 million to \$1.5 billion.



Below are the statutory caps and outstanding amounts (in thousands):

Issuer	Statutory Cap	Outstanding at June 30, 2025	Available Authorization
Virginia Resources Authority	\$1,500,000	\$919,227	\$580,773
Virginia Housing Development Authority	\$1,500,000	\$0	\$1,500,000
Virginia Public School Authority	\$800,000	\$0	\$800,000
Total	\$3,800,000	\$919,227	\$2,880,773

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**

A sensitivity analysis was completed for moral obligation debt. The analysis demonstrates the impact on tax-supported debt capacity as a result of the conversion of moral obligation debt to tax-supported debt. The sensitivity analysis is prepared using a worst-case scenario and shows 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 the 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).

If the Base Model solution is altered to assume the conversion of all \$919.23 million of outstanding moral obligation debt as of June 30, 2025 to tax-supported debt, the resulting average debt capacity is \$1.41 billion, a decrease of \$76.60 million.

### **Contingent or Limited Liability Debt**

The Virginia Public School Authority (“VPSA”) is the only issuer of non-tax-supported debt that utilizes a sum-sufficient appropriation (“SSA”) as an additional credit enhancement. SSA debt represents a contingent liability for the Commonwealth. The VPSA had \$2.3 billion of 1997 Resolution bonds outstanding as of June 30, 2025 and an additional \$355.8 million of School Tax Credit bonds outstanding. Both VPSA programs receive authorization to issue bonds with a SSA credit enhancement from the Code of Virginia, §22.1-167.2.

The use of SSA credit enhancement for VPSA’s issuance of bonds or notes for the purpose of making grants to local school boards was codified during the 2001 General Assembly session (§22.1-167.3, Code of Virginia). As of June 30, 2025, outstanding notes for school technology and security amounted to \$197.5 million.

VPSA’s bonds issued through its Stand-Alone Program are secured by the related local government’s GO pledge. While these bonds are afforded the security enhancement of VPSA’s ability to intercept state aid to the obligated locality for VPSA’s use towards payment of debt service should the locality default on its payment to VPSA, the Stand-Alone Program bonds are not additionally secured by SSA.

### **Sum-Sufficient Appropriation Sensitivity**

A sensitivity analysis was completed for the VPSA’s SSA debt. The analysis demonstrates the impact on tax-supported debt capacity as a result of the conversion of all SSA debt to tax-supported debt.

If the Base Model solution is altered to assume the conversion of the VPSA’s \$2.83 billion in total outstanding debt secured by a sum sufficient appropriation as of June 30, 2025 to tax-supported debt, the resulting average debt capacity is \$1.25 billion, a decrease of \$235.78 million.