

**DEBT CAPACITY ADVISORY COMMITTEE
COMMONWEALTH OF VIRGINIA
December 18, 2025**

10:00 A.M.

Members Present: Stephen Cummings, Chairman
Scott Adams
Harold Greer
Staci Henshaw
Harold Hughey
April Kees
Michael Maul
Anne Oman
David Richardson
Ronald Tillett

Others Present: James Alex, Department of Taxation
Flora Hezel, Office of the Attorney General
John Markowitz, Office of the Secretary of Finance
Jason Powell, Office of the Secretary of Finance
Ty Wellford, Davenport & Company, LLC
Sherwanda Cawthorn, Department of the Treasury
Leslie English, Department of the Treasury
Bradley Jones, Department of the Treasury
Jay Mahone, Department of the Treasury
Richard Rhodemyre IV, Department of the Treasury
David Swynford, Department of the Treasury

Call to Order

Chairman Cummings called the meeting to order at 10:03 a.m. and welcomed the attendees.

Opening Remarks and Public Comment Period

Chairman Cummings made his opening remarks and then asked if anyone present desired to make public comments. There were no public comments received.

Approval of Minutes from December 19, 2024 Meeting

Chairman Cummings asked the Committee if there were any edits to the draft minutes of the December 19, 2024 meeting. Hearing no changes, the Chairman asked if there was a motion to approve the minutes as presented. April Kees made a motion to approve the minutes. David Richardson seconded the motion, which received unanimous approval from the Committee.

Review of the 2025 DCAC Report

Chairman Cummings asked Mr. Rhodemyre to present the 2025 Draft Debt Capacity Advisory Committee (“DCAC”) Report (Exhibit 1). Mr. Rhodemyre stated that the cover letter for the report would be reviewed at the end of the presentation.

Mr. Rhodemyre reviewed the background of the DCAC and its establishment in 1991 and discussed the purpose and duties of the DCAC.

Mr. Rhodemyre reviewed the model inputs, including an overview of the 5% debt service to revenues capacity measure, noting that the amount is not a legal limit, but a policy that is to serve as a guideline to the Governor and state policymakers. Mr. Rhodemyre then reviewed the definition of Blended Revenues used in the model, noting that they are comprised of general fund revenues, certain recurring non-general fund transfers including ABC profits, Virginia Health Care Fund revenues, state revenues of the Transportation Trust Fund (“TTF”), and beginning with the 2025 model, certain Commonwealth Transportation Fund revenues related to the Route 58 Program and the Special Structures Program. Ms. Kees asked if proposed tax policy impacts from the Governor’s introduced budget are included in the model. Mr. Rhodemyre noted that any proposed tax policies included in the budget are included in Blended Revenues. Mr. Rhodemyre discussed what is included in tax-supported debt, noting that the model includes actual debt service as of June 30, 2025, on all existing tax-supported debt, as well as estimated debt service on future issuances of tax-supported debt that has already been approved by the General Assembly but has yet to be issued. Mr. Rhodemyre then expanded on the various types of state debt that is considered tax-supported for model purposes, noting that it includes general obligation (GO) bonds (with the exception of 9(c) GO bonds as these are supported by project revenues), debt supported by the TTF, obligations of the Virginia College Building Authority (“VCBA”) and Virginia Public Building Authority (“VPBA”) that are appropriation supported, obligations payable under regional jail reimbursement agreements, certain leases, installment purchases, and long-term subscription-based information technology arrangements (“SBITAs”).

Mr. Rhodemyre shared that the Commonwealth had another strong year, with total combined reserve funds remaining at a historically high level of \$4.7 billion and total general fund revenues of \$31.2 billion, which represented a revenue growth rate of 6.1% from the prior year, well ahead of the budgeted growth rate of 4.1%. Overall, Virginia recognized another substantial revenue surplus of \$572 million in fiscal year 2025. Through October of fiscal year 2026, general fund revenues continued to exceed budgeted levels and were up by 5.5% compared to the same time period from fiscal year 2025.

Mr. Rhodemyre then discussed the performance of the broader U.S. economy in fiscal year 2025, noting that while inflation and unemployment both trended upwards over the year, they both remained low and stable. U.S. gross domestic product (“GDP”) growth was lower in 2025 as compared to 2024 at 2.3% but was well ahead of initial GDP growth forecasts of 1.4% from this time a year ago. Mr. Rhodemyre then noted that despite Virginia’s strong financial position and the stability of the broader economy, any number of factors could impact Virginia’s financial

condition going forward, including a U.S. economic recession, changes to prevailing interest rates, federal and/or state level policy changes, growing costs related to healthcare and K-12 education, and ever evolving cyber security risks.

Mr. Rhodemyre then informed the Committee that the 2025 Base Model Average Solution debt capacity calculation shows that an additional \$1.49 billion in tax-supported debt could be authorized and issued in each of fiscal years 2026 and 2027. Mr. Rhodemyre noted that the increase in debt capacity compared to the prior year's recommendation was driven primarily by increased revenue projections included in the official revenue forecasts

Mr. Rhodemyre then reviewed the other recommendations and observations made by the Committee. Ms. Kees asked what the typical difference in borrowing costs was between 9(b) GO bonds and 9(d) appropriation supported bonds. Mr. Rhodemyre noted that it depends on market conditions, but could range anywhere from five to twenty-five basis points. Discussion ensued. The Committee requested changes to the other recommendations sections of the 2025 report and that additional language be added to the 2025 report discussing the process for seeking 9(b) GO bond approval and the additional costs and challenges that come with that process. The Committee noted its continued support of traditional financing methods to support state capital projects such as general obligation bonds or appropriation supported bonds as opposed to leases or other forms of alternative financing that carry higher borrowing costs but are ultimately still viewed by rating agencies as tax-supported debt. The Committee also recommended that the Commonwealth continue to be conservative with the planning of any future tax-supported debt issuances and continue to evaluate existing authorized projects that have not moved forward to determine whether these authorizations can be rescinded or amended. Finally, the Committee noted its continued awareness of the Commonwealth's increasing outstanding debt over the last 10 years and how Virginia compares to the country and other triple-AAA state medians for Net Tax-Supported Debt ("NTSD") as reported annually by Moody's.

Mr. Rhodemyre then discussed the two primary types of tax-supported debt: GO bonds and various kinds of appropriation-supported obligations. GO bonds are secured by the full faith and credit of the Commonwealth, while payments for appropriation supported bonds are made from annual appropriations from the general fund or from the TTF. Appropriation-supported bonds are rated slightly lower than Virginia's GO bonds. The Commonwealth has increasingly relied on appropriation-supported debt to provide financing for capital projects.

Mr. Rhodemyre then discussed the Commonwealth's transportation debt. Mr. Rhodemyre explained the transportation-only debt capacity model and noted that transportation debt service to transportation revenue ratios ranged from 9.7% to 18.7% over the last decade and is projected to remain at levels between 9.8% and 10.2% over the next ten years. He noted that to the extent that transportation debt service exceeds 5% of transportation revenues, transportation related capital projects are essentially utilizing excess capacity generated by the general fund. Discussion ensued. Ms. Kees requested that language be added to the final letter from the Committee to the Governor and General Assembly highlighting the fact that transportation related debt service exceeds 5% of

transportation revenues and therefore uses excess general fund debt capacity to keep the Commonwealth's overall debt service to revenues ratio below the 5% limit.

Mr. Rhodemyre then reviewed the trends in Virginia's tax-supported debt over the last 10 fiscal years, noting that Virginia's tax-supported debt has increased by 9.4% or \$2.0 billion. Mr. Rhodemyre noted that outstanding tax-supported debt decreased by \$405.2 million, or 1.7%, in fiscal year 2025, as a result of muted issuance of new tax-supported debt during the year. Mr. Rhodemyre noted that the overall growth in tax-supported debt over the last decade was driven almost entirely by growing Section 9(d) debt, although some of the growth was related to changes in accounting standards over this period. Ms. Henshaw noted that an additional accounting change, GASB 101, had gone into effect in fiscal year 2025, resulting in the recognition of more than \$200 million in additional compensated absences compared to the prior year.

Mr. Rhodemyre then discussed the Commonwealth's historical trends for authorizing and issuing tax-supported debt and reviewed the new authorizations and issuances of tax-supported debt that occurred in fiscal year 2025. Mr. Rhodemyre provided further details on the authorization of up to \$1 billion of new transportation debt for the Special Structures Program that was approved in 2025, noting that the authorization was not for a flat amount and was instead revolving. Mr. Rhodemyre explained that while no more than \$1 billion of outstanding debt could be outstanding at any point in time, and no more than \$200 million could be issued annually, the Commonwealth could eventually issue more than \$1 billion in bonds for the program as the existing bonds are paid off. Discussion ensued. Mr. Rhodemyre noted that the Commonwealth had \$4.5 billion in authorized but unissued tax-supported debt at fiscal year-end 2025, of which \$3.7 billion was included in the debt capacity model. Mr. Rhodemyre noted that authorizations of additional tax-supported debt had remained well below historical levels from 2021 to 2023 as the Commonwealth used surplus revenues to cash finance many of its capital needs, but that authorizations had returned to more normal levels in 2024 and 2025. Mr. Rhodemyre then reviewed the Commonwealth's historical usage of tax-supported debt over the last decade, noting that approximately 77% of the Commonwealth's tax-supported debt has been used to finance higher education and transportation projects over the last decade.

Next, Mr. Rhodemyre discussed the historical and estimated annual debt service amounts on the Commonwealth's tax-supported debt, including all authorized but unissued tax-supported debt, noting that the Commonwealth's tax-supported debt service as a percentage of Blended Revenues had remained below the 5% target level over the last decade and was projected to remain below this level going forward. Mr. Rhodemyre then reviewed the interest rate sensitivities for annual debt service on planned issuances for fiscal years 2026 – 2030, noting that debt service was highly insulated from interest rate risk due to the Commonwealth having no variable rate debt, with a 50 basis point change in interest rates only leading to an increase or decrease in annual debt service of anywhere from \$3-10 million.

Mr. Rhodemyre then reviewed the state's non-tax supported debt, noting that while these obligations are not viewed as tax-supported by the rating agencies or by the Commonwealth, this category of debt had seen the largest rate of growth over the last decade. Other debt not supported

by taxes totaled \$36.5 billion as of June 30, 2025, an increase of \$12.7 billion, or 68.1%, over the last decade. Mr. Rhodemyre noted that while these obligations are not tax-supported, a portion of these obligations carry either a moral obligation or a sum-sufficient appropriation credit enhancement, and they could become tax-supported debt within the model in the event the Commonwealth ever had to use its credit enhancement to prevent a default by the underlying issuer. Discussion ensued.

Mr. Rhodemyre then reviewed the State Credit Rating Overview section of the report. He noted that Virginia is rated Aaa/Stable (Moody's), AAA/Stable (S&P), and AAA/Stable (Fitch), with its appropriation supported debt one notch below the GO ratings: Aa1 (Moody's), AA+ (S&P) and AA+ (Fitch). Mr. Rhodemyre reviewed the Commonwealth's 2025 financial performance and discussed the various credit strengths and credit risks described by the rating agencies in the Commonwealth's most recent rating reports. Chairman Cummings requested additional language be added regarding the impact of federal government shutdown and downsizing on Virginia's as well as language discussing recent rating downgrades to some of Virginia's neighboring states/entities. Discussion ensued.

Mr. Rhodemyre provided an overview of the comparative ratios for state NTSD from the most recent Moody's Medians Report. Mr. Rhodemyre noted that the Commonwealth's NTSD per capita and NTSD as a percentage of personal income both declined for the second year in a row, while Virginia's ranking nationally in these metrics remained unchanged from the prior year's report. Mr. Rhodemyre noted that while Virginia's NTSD levels are nominally high when compared to the overall state medians, Virginia's capital asset depreciation ratio was the 4th lowest in the nation, meaning Virginia's capital asset base is in better condition than the majority of the nation, reflecting Virginia's substantial commitment to financing its capital needs in a timely manner and at the lowest possible costs. Discussion ensued.

Mr. Rhodemyre then reviewed the debt capacity model, discussing the various factors that go into the model and reviewing the authorized but unissued tax-supported debt and how it is modeled. Mr. Rhodemyre noted that the base model solution resulted in an average annual capacity of \$1.49 billion for both fiscal year 2026 and 2027, an increase from \$1.31 billion the prior year, driven primarily by increased revenue projections in the model. Mr. Rhodemyre noted that the projected debt service to blended revenues ratio was modeled to remain below 5% throughout the model period. Mr. Rhodemyre asked if there were any questions on the model results and discussion ensued.

Mr. Rhodemyre then reviewed the sensitivity analyses. Discussion ensued. Mr. Rhodemyre then reviewed the State's contingent liability and moral obligation debt sensitivities. Discussion ensued.

Finally, Mr. Rhodemyre reviewed the cover letter to the report and asked if the Committee had any recommended changes to the draft documents. Discussion ensued. The Committee recommended edits to certain sections of the cover letter as well as the report. Chairman Cummings asked that Mr. Rhodemyre make the requested edits and that redlined versions of both the cover

letter and the report showing the edits be sent to the committee for sign off before the final report is submitted to the Division of Legislative Automated Systems.

Chairman Cummings asked for a motion to approve the cover letter and report subject to the edits necessary to incorporate the comments of the Committee. Scott Adams made the motion and Ron Tillett seconded; the motion passed unanimously.

Other Business

With no further business, the meeting adjourned at 11:34 a.m.

Exhibits may be obtained by contacting the Department of the Treasury at (804) 786-3669.

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