

# MOODY'S

## INVESTORS SERVICE

### **Rating Action: Moody's assigns Aa1 to Virginia's Educational Facilities Revenue Bonds, Series 2019B&C; outlook stable**

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New York, November 04, 2019 -- Moody's Investors Service has assigned Aa1 ratings to the Commonwealth of Virginia's \$125 million Educational Facilities Revenue Bonds (21st Century College and Equipment Programs), Series 2019B and \$228 million Educational Facilities Revenue Refunding Bonds (21st Century College and Equipment Programs), Series 2019C, to be issued by the Virginia College Building Authority (VCBA). The outlook is stable.

#### RATINGS RATIONALE

The Aa1 rating on VCBA's Educational Facilities Revenue Bonds reflects the obligation of the Commonwealth of Virginia (Aaa stable) to make payments from funds appropriated by the General Assembly. Security rests with the continued willingness of the commonwealth to make payments in amounts sufficient to meet debt service requirements as they come due. The one-notch distinction in the rating from the commonwealth's general obligation rating incorporates the essential nature of the projects financed by the bonds and the moderately strong legal structure, including the risk of non-appropriation.

#### RATING OUTLOOK

The VCBA Educational Facilities Revenue Bonds carry the stable outlook of the Commonwealth of Virginia. Virginia's stable outlook is based on healthy revenue performance and structurally balanced operations that will continue as a result of the commonwealth's strong governance and financial management structure.

#### FACTORS THAT COULD LEAD TO AN UPGRADE

- Given that the bonds are rated based on the state's Aaa rating and notched once off the state's rating due to the risk of non-appropriation, an upgrade is unlikely

#### FACTORS THAT COULD LEAD TO A DOWNGRADE

- A downgrade of the Commonwealth of Virginia's rating
- Non-appropriation of needed funds for debt service

#### LEGAL SECURITY

Bondholder security is provided by the General Assembly's biennial appropriations to the VCBA pursuant to the master indenture and a payment agreement with the Treasury Board. The Series 2019B&C bonds are the forty-sixth and forty-seventh series of bonds issued under the master indenture, which is a continuing, irrevocable pledge of the funds appropriated to VCBA for debt repayment. The General Assembly makes a single appropriation to the Treasury Board for commonwealth debt, including VCBA's bonds, other subject-to-appropriation debt, and the commonwealth's general obligation bonds.

Debt service payment dates of August 1 and February 1 provide a sufficient buffer against a potentially late budget (the state's fiscal year starts July 1). Debt service payments are subject only to the risk of non-appropriation by the General Assembly. If the legislature fails to appropriate sufficient funds, or if an event of default exists, bondholders have no mortgage or security interest on the facilities financed, and legal remedies do not include taking the facilities. There is no debt service reserve fund. Although there is no legal obligation to appropriate, the General Assembly has a strong incentive to do so due to the continuing need for issuance under this and other programs to support capital funding needs for public facilities. Because all debt service appropriations are considered by the legislature in one budget action, the probability of non-appropriation is low. Both the limited nature of the state's payment obligation and the use of bond proceeds for state projects approved by the legislature contribute to the rating assigned.

#### USE OF PROCEEDS

Proceeds from the Series 2019B bonds will be used to finance capital projects for various public higher education institutions within the commonwealth. Proceeds from the Series 2019C bonds will be used to refund a portion of certain outstanding series of Education Facilities Revenue Bonds for estimated net present value savings of \$29 million, or 10.9% of the refunded bonds.

## PROFILE

Virginia is the twelfth largest state by population (8.5 million people in 2018) and the thirteenth largest state by GDP (\$534.3 billion in 2018 current dollars). VCBA is a political subdivision of the commonwealth that is authorized to issue bonds to finance capital projects and acquire equipment for public higher education institutions within the commonwealth. The authority is governed by an eleven-member board comprised of the state treasurer, the state comptroller, the director of the Department of Planning and Budget of the Commonwealth, the executive director of the State Council of Higher Education for Virginia, and seven appointments by the governor.

## METHODOLOGY

The principal methodology used in these ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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