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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Governor Phil Scott
Susanne Young, Secretary of Administration
Mitzi Johnson, Speaker of the House of Representatives
Tim Ashe, Senate President Pro Tempore
Alice Emmons, Chair, House Committee on Corrections and Institutions
Joe Benning, Chair, Senate Committee on Institutions
Stephen Klein and Members, Joint Fiscal Committee

FROM: Beth Pearce, State Treasurer *Beth*

DATE: September 30, 2019

RE: Capital Debt Affordability Advisory Committee Report for 2019

Pursuant to 32 V.S.A. §1001, I am pleased to deliver on behalf of the Capital Debt Affordability Advisory Committee ("Committee" or "CDAAC") its "Recommended Annual Net Tax-Supported Debt Authorization" Report for 2019 ("Report").

This is the second year of the FY 2020-2021 biennium and the Committee is reaffirming its 2-year debt recommendation of \$123,180,000, as proposed by the Administration and adopted by the General Assembly in the Capital Bill.

As noted in the Report, more limited debt issuance by other states, including Triple-A rated states, has resulted in a weakening of Vermont's debt ratio comparative rankings. The Committee notes that Vermont's projected debt issuance of \$61,590,000 per year exceeds scheduled debt retirements, meaning that the State's overall debt outstanding will continue to rise from 2020 through 2025 and remain in that range through 2030. The issuance amount may also cause the State to be out of compliance with its debt ratio guidelines, specifically debt per capita. As we are in the second year of a biennium, we did not make an adjustment to the current recommended authorization. We may however, see pressure to consider a reduction in the bond-issuance recommendation in the next biennium, depending on trends over the next year. The inclusion of the \$37 million housing bond, while providing a jumpstart for our housing needs, also creates additional pressure on future authorization levels.

During this fiscal year we received downgrades of our bond ratings from Moody's Investors Service (from Aaa to Aa1) and Fitch Ratings (from AAA to AA+). We moved from the highest rating to the second highest rating. The State's general obligation rating from S&P remains unchanged at AA+. The demographic challenges of an aging population and its impact on workforce, future economic growth, and our long-term liabilities are at the core of the

**CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE
2019 FINAL REPORT TRANSMITTAL MEMO**

downgrades. My office remains committed to work with all parties on initiatives to make Vermont more affordable for families and businesses and to address educational, housing, and workforce issues.

Both Moody's and Fitch cited many positives in our rating, including funding of the actuarially determined employer contribution (ADEC) for the State and Teachers' Retirement Systems, strong financial management, and increased funding of reserves. I urge the Administration and the General Assembly to continue these efforts.

While Vermont retains the highest state credit ratings in New England, my hope is that we can work together on the demographic issues and our long-term liabilities and achieve a Triple-A rating from all three rating agencies. The ratings are critical to Vermont's financial future and allow the State to access capital at low rates. Adhering to the CDAAC recommendation in our bond authorization process is a critical factor as it impacts future long-term liabilities and is a barometer of our continued commitment to strong financial management. The rating agencies pay close attention to that barometer.

The Committee also recognizes the need to address capital infrastructure needs. To that end, the Committee discussed the need to develop pay-as-you-go (PAYGO) funding policies and procedures and examine the use of bond premiums, for policy makers to consider. A working group has been formed to address these issues. It is composed of the Treasurer, Secretary of Administration, a representative of the Department of Finance and Management, a representative from JFO, and a member of CDAAC who is not a state employee. We expect to have ongoing discussions with the Institutions Committees during this review. The working group is expected to report its recommendations in the first quarter of 2020.

The CDAAC has also taken on a project to review the criteria and metrics it uses when making its recommendation of new long-term net tax-supported debt that Vermont may prudently authorize over a biennial period. The current metrics and a review of potential additional metrics will be discussed for inclusion in the next full biennium report in September 2020.

As I stated in my previous report, our nation's tax, budgeting, and fiscal policies have tremendous challenges and/or stresses going forward that will impact the State. While I am confident that Vermont will advocate for policies that will address the needs of all of our citizens, there will be budgetary and fiscal impacts. Vermont, therefore, needs to continue its policies of fiscal prudence, conservative debt management, maintaining our reserves, and proactive budget management. We look forward to working with you as we address these challenges.

Please feel free to contact me with any questions.