Presentation to House Committee on Institutions and Corrections

Draft

Office of the State Treasurer

January 2016

History of Vermont's Debt Policies

- In the early 1970s, Vermont lost its Triple-A bond rating, largely because of a significant accumulation of bonded indebtedness. There were three principal causes for the increase in outstanding debt… interstate highway construction, extensive school construction and renovation, and sewage treatment plant construction.

- In 1975, Vermont enacted in statute the so-called "90 percent rule" as a policy device to reduce its large amount of accumulated tax supported debt.
  - New general obligation debt authorization was restricted to 90 percent of the debt being retired in the same fiscal year.
  - The ratio of debt as a percent of personal income, a key benchmark for rating analysts, was reduced from about 11% in the mid-1970s to about 3% in 1989.
  - The 90 percent rule policy was not sustainable and policymakers recognized it would eventually lead to unrealistically small amounts of allowable new debt.

- In 1990 the "90 percent rule" was repealed and the Capital Debt Affordability Advisory Committee was created to provide a new framework for determining the appropriate level of new debt issuance for the State.

- CDAAC Progress: In 1996, Vermont's debt as percentage of personal income was twice the national median and we ranked 9th highest in the country. In 2012, the State is under the national median for that ratio and ranked 36th highest in the country; Vermont's debt per capita ranked 34th highest in the country.

- Debt guidelines strengthened in 2004. State now benchmarks against triple-A rated states.

- In February of 2007, Vermont rejoined the ranks of Triple-A rated states when Moody's raised its rating for the State from Aa1 to Aaa; in April 2010, Fitch "recalibrated" Vermont's rating from AA+ to AAA; and in September 2012 S&P improved its outlook on Vermont's AA+ rating from stable to positive although returned it to stable in November 2012.

Overall Debt Strategy….

- State has substantially reduced outstanding debt since 1990s, *but*
  - Need to manage recent trend vs. recent national trend of reductions in bond issuance

- Uncomplicated debt profile, almost entirely general obligation debt
  - Transportation Infrastructure Bonds

- 100% fixed rate

- Level principal produces rapid amortization (reducing debt by quick installment payments)

Capital Debt Affordability Advisory Committee

- The CDAAC was created by State statute in 1989
- Annually reviews affordability of Vermont’s net tax-supported debt
- Recommends annual debt issuance to Governor and General Assembly
- Recommendation is advisory; in practice, Governor and Legislature have always adopted
- Reviews amount and condition of bonds, notes and other obligations the State has a contingent liability or moral obligation

Executive Summary

- For the second year of the FY2016-17 biennium, the CDAAC is reaffirming its two year recommendation of debt authorizations of $144,000,000

- The FY2015 capital bill included $11.559 million of bond premium based on the 2014 bond sale

- Additional bond premium available from 2015 sale

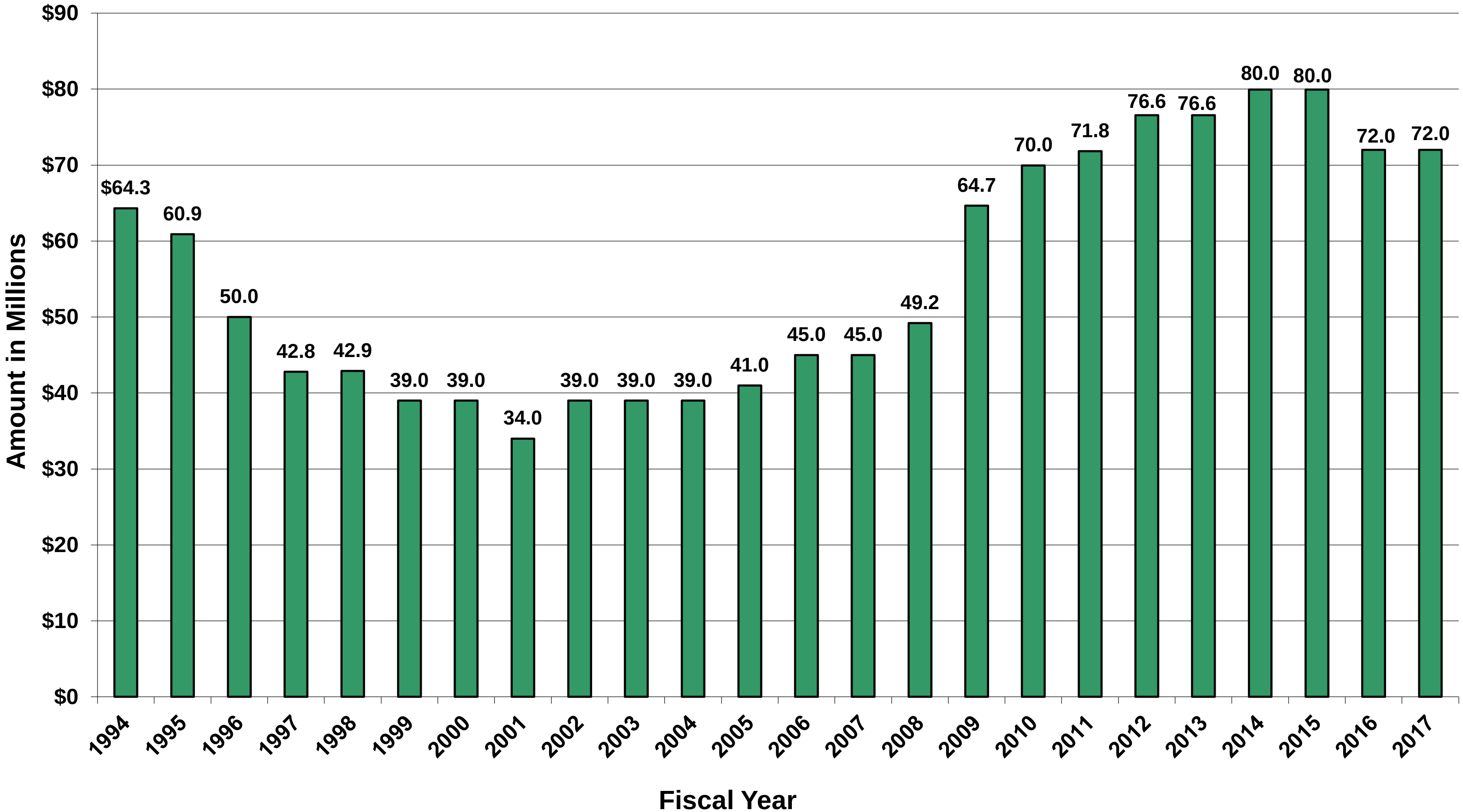
FY 2016-17 Biennium Authorization	$	144,000,000	
2014 Act No. 178	$	11,559,096	Premium from 2014 G.O. Issue
2015 Act No. 26	$	9,265,021	Premium from 2015 G.O. Issue
Total	$	164,824,117	

Other Recommendations

- *Private Activity Bond Advisory Committee*-- proposed legislation to discontinue its activities and provide alternative approach

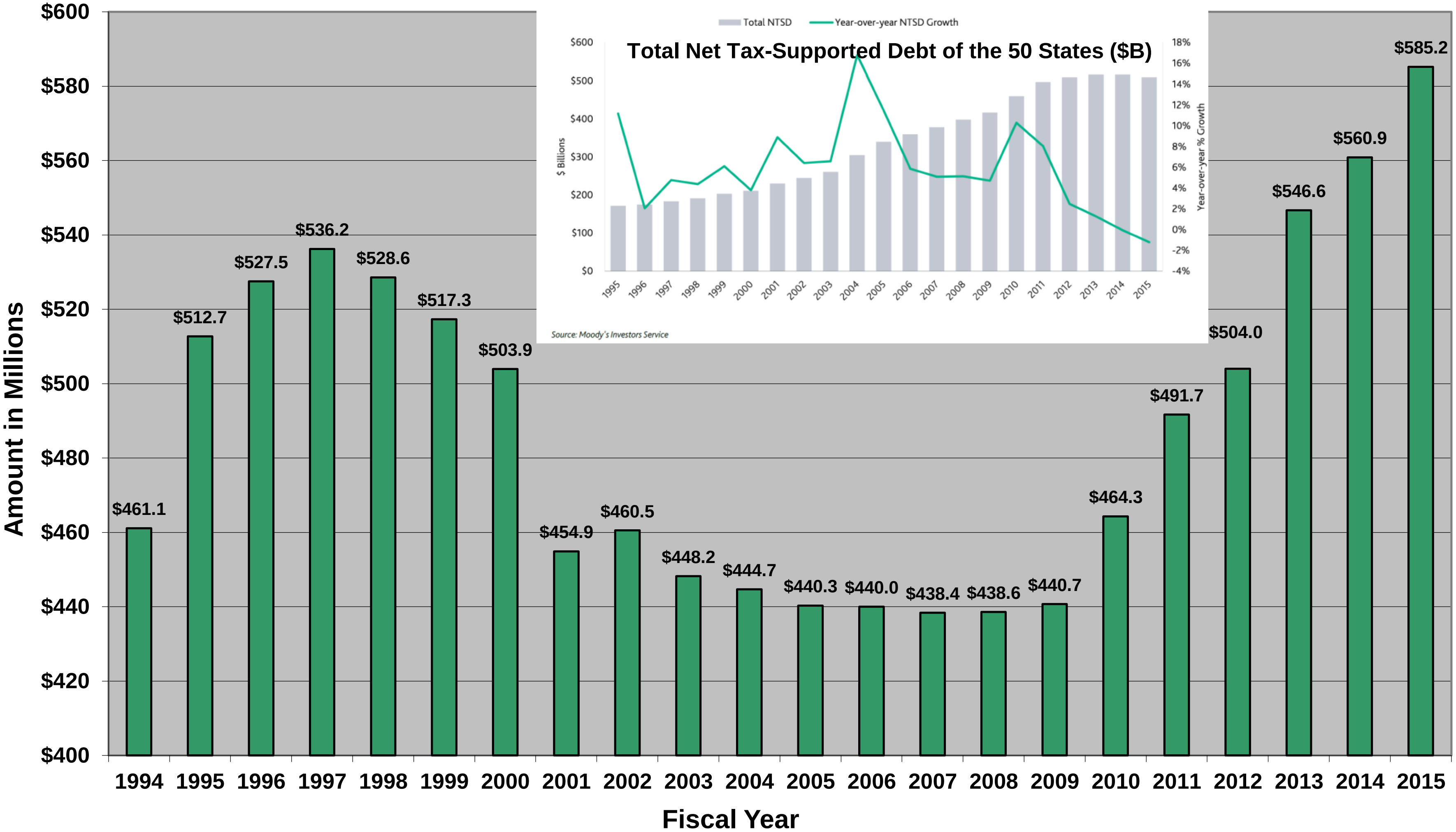
- *Vermont Municipal Bond Bank (VMMB*) – Improvements to State Intercept language
  - Provides a mechanism to implement intercept in the unlikely event it is needed
  - Potentially enhances the VMMB bond rating which is supported by the State’s moral obligation
  - Protects municipalities and other participating entities while potentially reducing the cost of borrowing

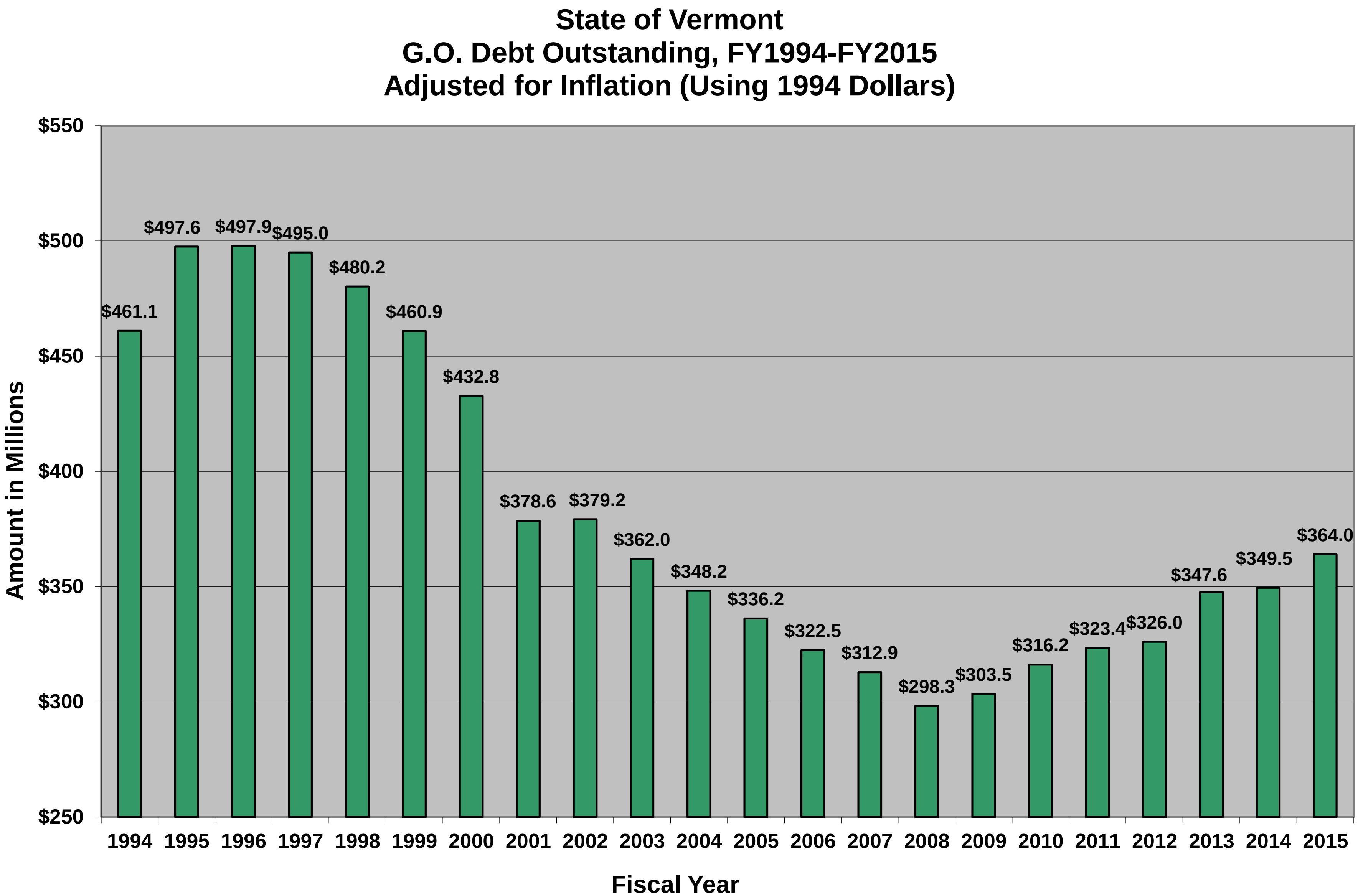
State of Vermont
General Obligation (G.O.) Debt Authorizations, FY1994-FY2017 ($ millions)



Note: FY2016-2017 indicates CDAAC 2-year recommended net tax-supported debt authorization of $144 million.

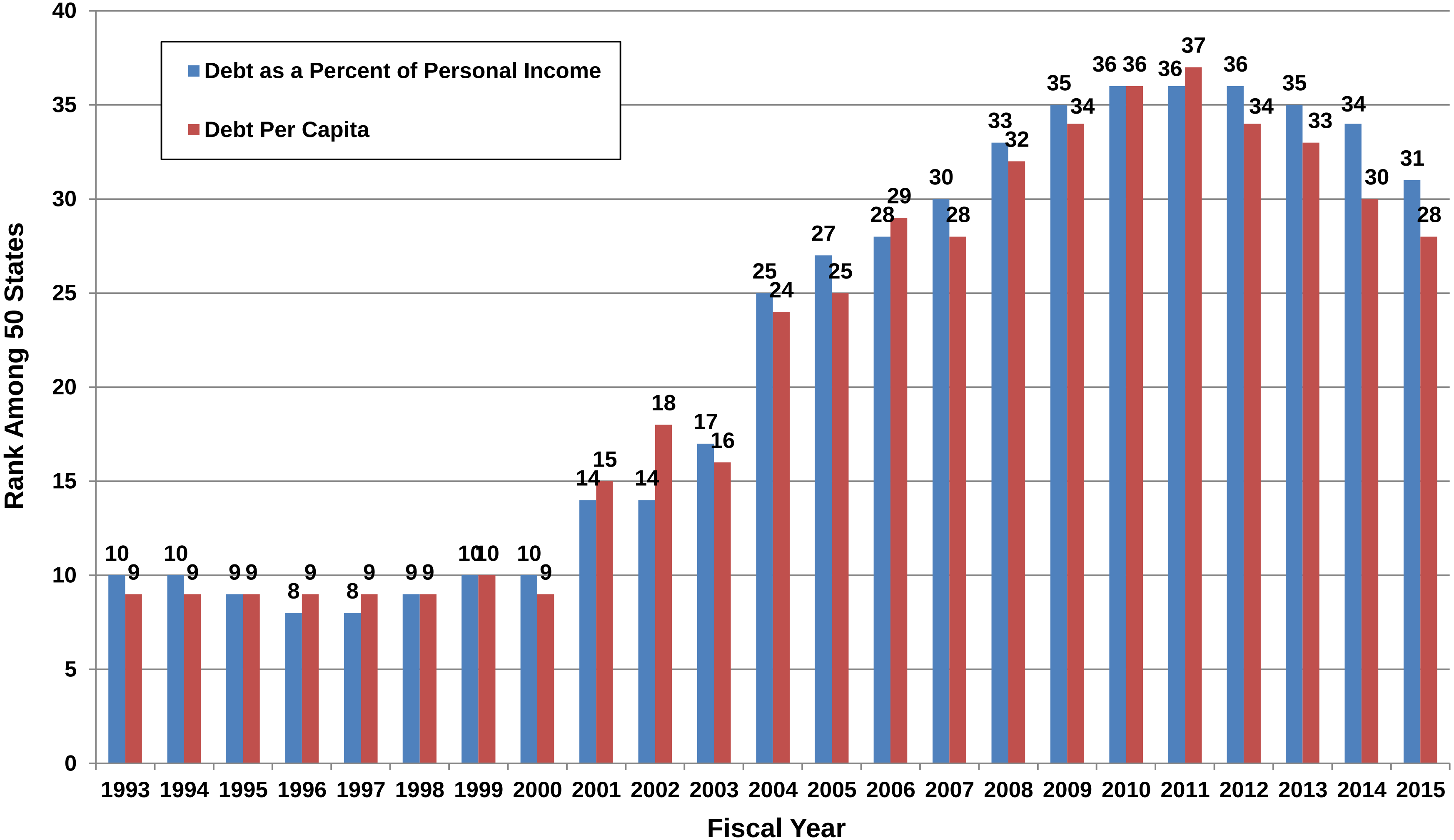
State of Vermont
G.O. Debt Outstanding, FY1994-FY2015 vs. National Trend

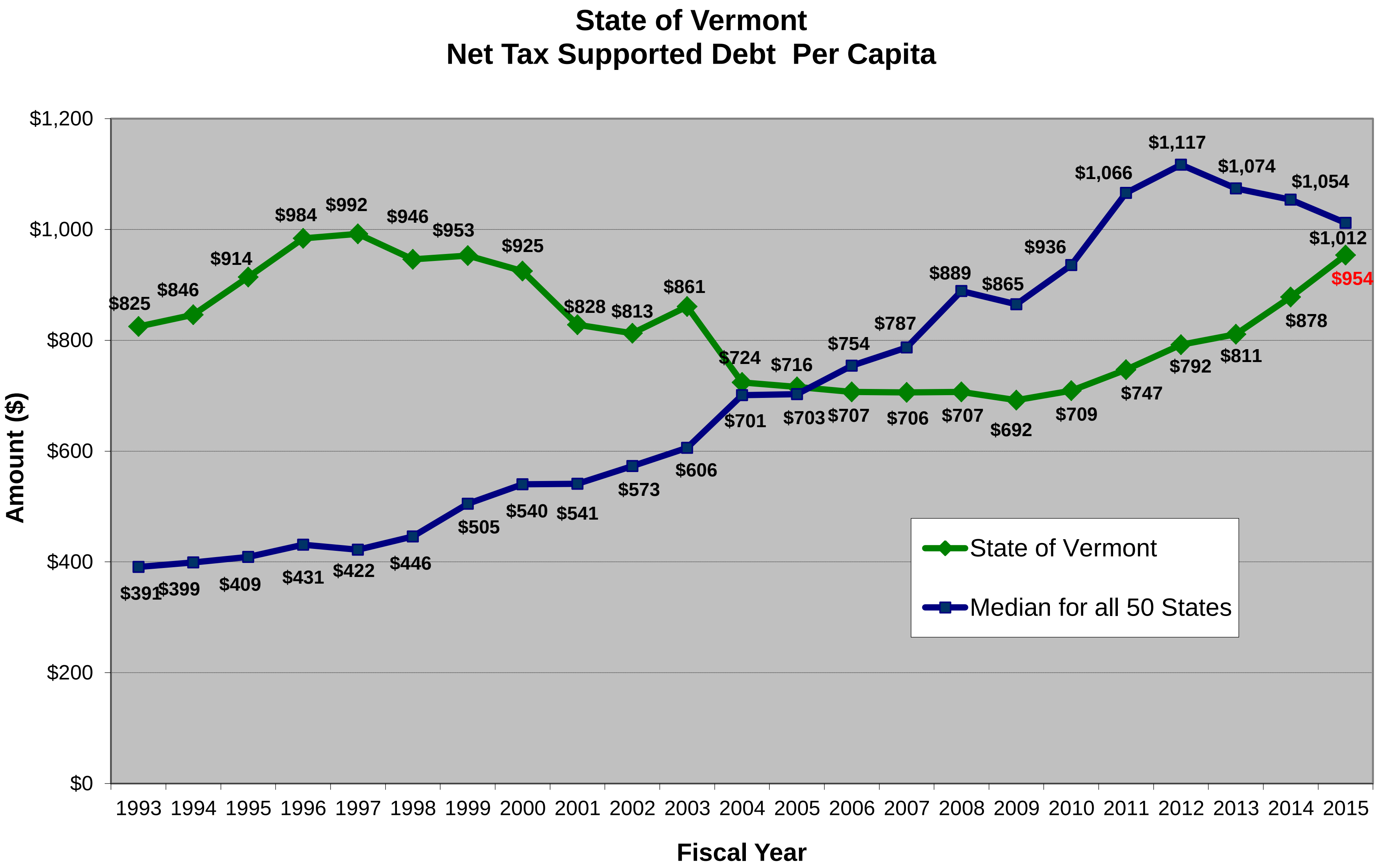




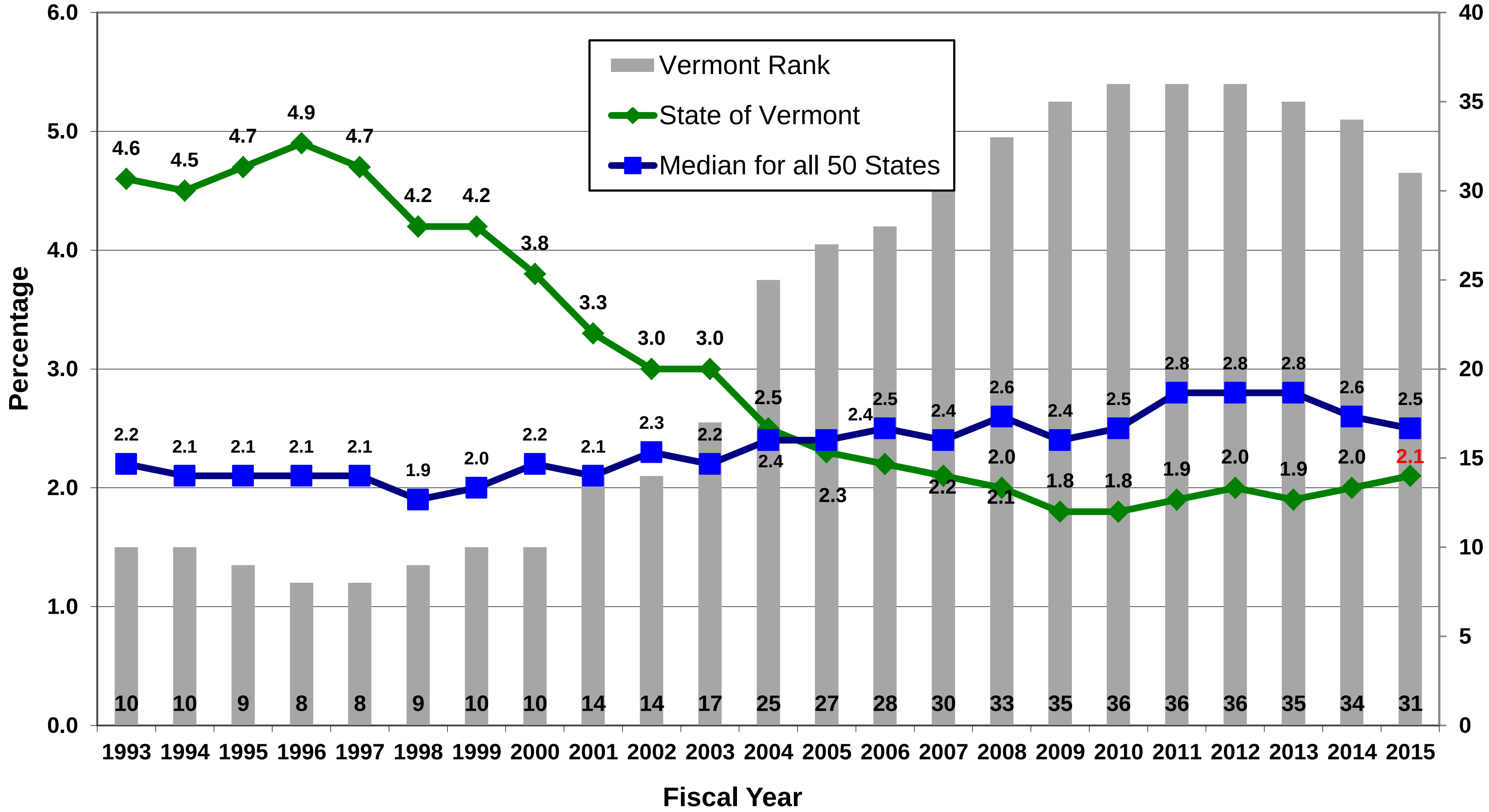
** Source: U.S. Bureau of Labor Statistics, CPI for All Urban Consumers, Not Seasonally Adjusted, June 1994 = 100*

State of Vermont
Historical State Debt Rankings




State of Vermont
Net Tax Supported Debt Per Capita
Amount ($)
Fiscal Year
State of Vermont
Median for all 50 States
$0
$200
$400
$600
$800
$1,000
$1,200
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
$825
$846
$914
$984
$992
$946
$953
$925
$828
$813
$861
$724
$716
$707
$706
$707
$692
$709
$747
$792
$811
$878
$954
$391
$399
$409
$431
$422
$446
$505
$540
$541
$573
$606
$701
$703
$754
$787
$889
$865
$936
$1,066
$1,117
$1,074
$1,054
$1,012

State of Vermont
Net Tax Supported Debt as a Percent of Personal Income



Vermont’s Credit Ratings History

MOODY’S INVESTORS SERVICE

RATING ACTION	DATE
Aaa	1971
Aa	9/20/72
Aa2*	10/20/97
Aa1	9/29/99
AAA	2/05/07

* In 1997, Moody’s began refining ratings with numerical modifiers. The shift to the “Aa2” rating was part of this process.

FITCH RATINGS

RATING ACTION	DATE
AA	8/18/92
AA+	10/25/99
AAA*	4/5/10

* Resulted from Fitch’s “recalibration” of public sector credit ratings.

STANDARD & POOR’S

RATING ACTION	DATE
AAA	10/2/63
Rating withdrawn	3/23/71
AA	2/28/73
Rating withdrawn	10/16/73
AA	4/25/86
AA-	6/10/91
AA	10/14/98
AA+	9/11/00
AA+	9/18/12

Outlook revised to stable from positive on November 7, 2014

New England Bond Ratings

State	Moody's	S&P	Fitch
Vermont	Aaa	AA+	AAA
Connecticut	Aa3	AA	AA
Maine	Aa2	AA	N/A
Massachusetts	Aa1	AA+	AA+
New Hampshire	Aa1	AA	AA+
Rhode Island	Aa2	AA	AA

* Vermont S&P Outlook revised to stable from positive on November 7, 2014.

Credit Rating Priorities for Legislature

- **Pension Funding:** Continue 100% funding of the annual required contributions (“ARCs”) of the Vermont State Employees’ and State Teachers’ Retirement Systems pension funds.

- **Reserves:** Continue to maintain the 5% budget stabilization reserves, and build the newly-created General Fund Balance Reserve (or “rainy day reserve”) to a target level of 3% of the general fund incrementally and over time.

- **Debt Recommendation:** Continue unbroken record of adopting the Capital Debt Affordability Advisory Committee’s (CDAAC) biennium recommendation for net tax-supported debt.

- **Teachers’ Healthcare:** Continue to fund retired state teachers’ healthcare costs from the annual budget, not from pension funds.