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Local Investment Advisory Committee (LIAC)

2/21/2023

LIAC Members Present:

MIKE PIECIAK, Vermont State Treasurer
CASSIE POLHEMUS, Vermont Economic Development Authority
MAURA COLLINS, Vermont Housing Finance Agency
MICHAEL GAUGHAN, Vermont Municipal Bond Bank
PETER WALKE, Efficiency Vermont Representative
TOM LITTLE, Vermont Student Assistance Corporation Designee

Also Attending:

Gavin Boyles, Deputy State Treasurer
Ashlynn Doyon, Office of the Vermont State Treasurer
Scott Baker, Office of the Vermont State Treasurer
Jeremiah Breer, Office of the Vermont State Treasurer
Nick Marineau, Office of the Vermont State Treasurer
Justin St. James, Office of the Vermont State Treasurer
Quinn Pidgeon, Treasurer's Intern
Ted Brady, Executive Director, Vermont League of Cities and Towns

CALL TO ORDER:

Treasurer Pieciak called the meeting to order at 2:02 p.m.

ITEM 1: Approval of January 18, 2023 Minutes

Ms. Collins made a motion to approve the minutes from January 18, 2023. Mr. Walke seconded the motion. The Committee approved the motion to approve the minutes unanimously.

ITEM 2: Statutory Review

Treasurer Pieciak introduced Justin St. James, the Treasurer's Office's legal counsel, to provide a statutory review of the Committee's charge. Mr. St. James described the history of the LIAC, which was codified in 2014 as a temporary committee, with its membership and purposed unchanged since inception.

The LIAC was established to advise the Treasurer on funding priorities and address other mechanisms to increase local investment. It became permanent in 2016 as 10 V.S.A. Sec. 11.

The LIAC has three purposes:

- 1) To make recommendations to the State Treasurer on funding priorities and using other mechanisms to increase local investment in Vermont.
- 2) To invite State organizations, citizens groups, and members of the public to meetings to present information on needs for local investment, capital gaps, and proposals for financing.
- 3) To consult with constituents and review feedback on changes and needs in the local and State investment and financing environments.

Act 62 of 2019 authorized investments in mobile home projects, and there have been various call outs in session law for NeighborWorks of Western Vermont, Vermont Economic Development Authority, etc. that have used the permissive language of *may* rather than *shall*.

Mr. Gaughan asked what the investment guardrails for the committee are if all of the instances are *may* rather than *shall*.

Mr. St. James replied that the “guardrails” are simply the 10% cash balance provision and the prudent investor rule, as well as the role of LIAC to identify areas of investment need in the community.

Mr. Little is the only member of the LIAC who has served since its formation. He recollected that the LIAC always functioned like a council of advice to the Treasurer, with symbolic votes and feedback. He noted there were times when the Committee has been busy and other times not so much.

Treasurer Pieciak underscored the legal analysis that the statutes provide flexibility and that there is no requirement to lend under specific statutory authorizations.

Ms. Collins noted that the legislature has frequently used LIAC to finance specific projects, as well as the fact that annual reporting for the LIAC has been rolled into the Treasurer’s larger Annual Report in recent years.

Treasurer Pieciak noted that if the Committee is going to do more lending, it would make sense to break out the report again and look for additional metrics of success to report on.

ITEM 3: Cash Analysis Discussion

Mr. Breer provided a summary of the Treasury Operations Division’s analysis of the State’s average daily cash balance. He noted that statute grants the Treasurer authority to invest up to 10% of the average daily cash balance. The State’s current average daily cash balance is about \$2 billion, but that includes a substantial amount of federal funds that are expected to be flowing out, with \$1 billion expended by end of 2026. In 2019 the average daily cash balance was \$470 million. There have also been delays and foregone State spending because of federal money as well as significant vacancy savings, tax revenues coming in over budget, and 9% average growth each year.

Mr. Breer forecasted three different scenarios for a four year period of average daily cash balances, each with a varying degree of risk: \$1.25 billion (conservative), \$1.5 billion (mid-range), and \$1.75 billion (most aggressive).

Treasurer Pieciak added that if he were to adopt the \$1.25 billion analysis, that 10% would be \$125 million, which would add \$85 million of new investment dollars. He suggested that the Committee might

consider soliciting \$60 million of projects, with a \$25 million buffer and that the Committee could evaluate the cash position each year based on project take-up. He would prefer a conservative approach.

Mr. Walke agreed, stating that he saw no reason not to be super conservative, especially with the delayed spending, vacancy, and ARPA dollar factors.

Mr. Gaughan asked staff for descriptive statistics on current cash investments.

Mr. Breer replied that most of the State's cash is getting 4.5%, the federal funds rate, with deposits mostly at M&T Bank, with some mutual funds, but nothing longer than a year, it being a completely liquid portfolio.

Treasurer Pieciak noted that we are going to be over expected interest rate targets on cash for this year.

Ms. Polhemus stated that the LIAC should also consider social return and economic impact and that it would take a while to figure out how to deploy the money.

Ms. Collins said that she like the idea of looking at the analysis annually and asked Mr. Breer how the State's cash is currently insured.

Mr. Breer noted that the State's cash is collateralized, often with return purchasing agreements.

Mr. Gaughan noted that duration is the hardest thing to explain in terms of risk and that we should marry the forecasting range with whatever the duration is.

Mr. Walke stated that that the current duration was in part a bond rating question for the former Treasurer and he understood that it slowed down some energy projects.

Mr. Baker replied that seven years was the previous timeline and that energy projects had larger pay back periods.

Mr. Walke suggested carving out a certain amount of LIAC dollars for longer maturities such as energy projects so that they are able to do what they are intended to do in terms of paying for themselves through long-term savings.

ITEM 4: Investment Policy Discussion

Mr. Breer introduced the topic of an investment policy as a list of points to consider in order to formalize at the next meeting. The first point was portfolio objectives, i.e. environmental projects, housing, and economic development, with an overall thread of equity (these were discussed at the 1/18/23 meeting). The second point to consider is rate of return; should it be lower than market rate, or tolerate other risks?

Treasurer Pieciak suggested that there be different interest rates assigned to different durations of financing, such as in 0-5, 5-10, and over 10-year blocks.

Ms. Polhemus suggested there ought to be an option for a 30-year loan.

Mr. Gaughan pointed out that the LIAC should be most concerned with the average life or time that the principal is outstanding. He also suggested that the committee might consider pushing out repayments until projects have been completed and that the LIAC should analyze the State's cost of capital.

Mr. Baker noted that the interest rate has always been based on Treasuries plus 60 basis points.

Mr. Breer continued to identify points of consideration including that the LIAC policy would live within the greater Treasurer's Office investment policy, liquidity needs, diversification or concentration risks, credit quality, evaluation, and documentation.

Ms. Collins noted the consideration of number of loans within a sector area.

Mr. Gaughan and Ms. Polhemus asked whether or not the statute requires the LIAC to vote in favor of the loans.

Mr. St. James responded that the only "action" prescribed in statute is for the LIAC to make recommendations to the Treasurer on investment priorities.

Treasurer Pieciak expressed that it would be good to have unanimous support from the committee.

Mr. Breer noted that the investment policy will lay out the functions, roles, and responsibilities of the committee, as well as the types of loans and the metrics used to determine the performance of the portfolio.

Mr. Gaughan said that it would be interesting to have social return benchmarks such as housing units or jobs created and that the Bond Bank has a matrix that they use.

Ms. Collins suggested that information should be compiled at least as frequently as the annual report.

Mr. Walke noted that benchmarks are complicated to develop, in terms of what might represent success, particularly with equity.

ITEM 5: Scheduling of Next Meeting

The Committee agreed to meet next on Tuesday, March 21st, at 2:00 p.m.

ITEM 6: Public Comment/Additional Comments from Committee

Ms. Collins noted that the 2% interest rate floor had been a problem previously.

Treasurer Pieciak suggested that the LIAC should review on an annual basis the interest rates, investment policy, and cash analysis. He also said that at the next meeting the Committee should discuss the roll out of a solicitation for applications process.

Ms. Polhemus noted that it would be helpful to invite in members of the administration or other partners to discuss where the capital needs are such as start-up working capital for small businesses.

Ms. Collins suggested further discussion on the idea of buying down interest rates rather than granting funds in order to amplify dollars available for projects such as rental housing.

ITEM 4: Adjourn

Mr. Gaughan made a motion to adjourn. Ms. Polhemus seconded the motion. The committee unanimously agreed to adjourn at 3:16 p.m.