**Elizabeth A. Pearce**
State Treasurer

**Retirement Division**
Tel: (802) 828-2305
Fax: (802) 828-5182

**Unclaimed Property Division**
Tel: (802) 828-2407

**Accounting Division**
Tel: (802) 828-2301
Fax: (802) 828-2884

**STATE OF VERMONT**
**OFFICE OF THE STATE TREASURER**

# Capital Debt Affordability Advisory Committee
# Minutes of Meeting on Wednesday, August 24, 2016

## CDAAC Members Attending
BETH PEARCE, CDAAC Chair, Vermont State Treasurer
DOUG HOFFER, Vermont State Auditor
SARA BYERS, President, Leonardo's of Vermont
JUSTIN JOHNSON, Secretary of Administration
ROBERT GIROUX, Executive Director, Vermont Municipal Bond Bank
DAVID KIMEL, Chair, Vermont Municipal Bond Bank
DAVID COATES, CPA, Managing Partner, KPMG (Retired) and VT Business Roundtable

## Also Attending
MICHAEL OBUCHOWSKI, Commissioner, Buildings and General Services
CATHERINE BENHAM, Associate Fiscal Officer, Legislative Joint Fiscal Office
JEFF CARR, Economic & Policy Resources, Inc.
TOM HUESTIS, Public Resources Advisory Group
SCOTT BAKER, State Treasurer's Office
VIN ALABISO, William Blair & Company
CHRISTINE FAY, Public Resources Advisory Group (via telephone)

Ms. Pearce called the meeting to order at 11:07 a.m.

**Mr. Coates made a motion to approve the minutes of the July 18, 2016 meeting. Ms. Byers seconded the motion. The motion passed unanimously.**

A discussion followed regarding the debt ratios used, including Debt Per Capita (DPC), Debt as a Percentage of Personal Income (DPC) and Debt Service as a Percentage of Revenues (DSPR). Although all are important, more emphasis is placed on DPC and DSPR.

The list of the peer group of States (those with ratings of AAA from two or more Rating Agencies) was reviewed, and the effects of changes of the group were discussed.

Mr. Carr presented his economic forecast and answered several questions from the Committee. His ten year projections of are used to model the pro-forma debt scenarios to follow.

Ms. Fay reviewed the ratings criteria for each of the Rating Agencies.

Mr. Huestis reviewed the results of five models of debt issuance for the 2018-2019 biennium. Mr. Hoffer questioned why the models project continued level debt issuance each year beyond the biennium as this affects the debt ratios in future years, when there is a tremendous amount of uncertainty. He questioned this methodology since the Committee has the ability to adjust the level of issuance in future years if warranted. Mr. Huestis explained that most states use this method of constant dollar amount issuance in their projections. All of the scenarios assumed issuance of the remaining amount of authorized but unissued debt of $82.35 million in fiscal year 2017. The scenarios included:

1. Maintain level of current biennium authorization of $144 million and continued issuance of $72 million per year through fiscal year 2027. This results in Debt Per Capita (DPC) exceeding the State guideline in all years, while Debt as a Percentage of Personal Income (DPI) and Debt Service as a Percentage of Revenues (DSPR) stays within the guidelines in all years.

2. Authorization of $136.8 million for the biennium (a 5% decrease from the current level). Issuance of $8.4 million annually through 2027. This scenario exceeds the DPC in all years.

3. Authorization of $151.2 million for the biennium (a 5% increase from the current level). Issuance of $75.6 million annually through 2027. This scenario exceeds the DPC guideline in all years.

4. Authorization of $107.65 million for the biennium or $36.35 per year through 2027. This is the level that was run to ensure that the DPC was in compliance with the State guideline by 20207.

5. Authorization of $132.33 for the biennium, or $66.165 million per year, with an increased inflator. Given the change in our peer group, this scenario was run using a previous inflator. In this scenario, DPC meets the guideline in 2027.

The consensus of most Committee members was that scenario #5 was worth looking at further, with some interest in #2. Mr. Hoffer expressed his respect for the process, but disagreed with the methodology used in preparing these scenarios. He thinks the Committee needs to request information about the current capital needs of the State and not rely solely on debt ratio compliance. In addition, he questioned why the Committee used the ratios projected for ten years out in light of the uncertainty about the future (both ours and the other Triple A states). He did not favor either scenario for these reasons.
Both of these issuance amounts will be run under recession type scenarios and presented at the next meeting.

Ms. Pearce asked if any members of the public wished to comment. No comments were made.

**Mr. Coates made a motion to adjourn the meeting, Ms. Byers seconded. Following a unanimous vote, the meeting was adjourned at 12:37 p.m.**