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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Capital Debt Affordability Advisory Committee
FROM: Scott Baker, Director of Financial Reporting
RE: Minutes of Meeting on Tuesday, June 3, 2014

CDAAC Members Attending

BETH PEARCE, Committee Chair, Vermont State Treasurer
DAVID COATES, CPA, Managing Partner, KPMG (Retired) (via telephone)
LAURA DAGAN, CFA, Chair, Dwight Asset Management (Retired)
ROBERT GIROUX, Executive Director, Vermont Municipal Bond Bank (via telephone)
DOUG HOFFER, Vermont State Auditor
JEB SPAULDING, Secretary of Administration
JOHN VALENTE, ESQ., Chair, Vermont Municipal Bond Bank

Members of the General Assembly

REPRESENTATIVE MARY HOOPER (Washington)

Also Attending

SCOTT BAKER, Director of Financial Reporting
CATHERINE BENHAM, Associate Fiscal Officer, Legislative Joint Fiscal Office
ANNE GALLOWAY, VT Digger
TOM HUESTIS, Senior Managing Director, Public Resources Advisory Group (via telephone)
STEVE KLEIN, Chief Fiscal Officer, Legislative Joint Fiscal Office
WANDA MINOLI, Buildings and General Services
MICHAEL OBUCHOWSKI, Commissioner, Buildings and General Services
REBECCA WASSERMAN, ESQ., Legislative Counsel
STEVE WISLOSKI, Deputy State Treasurer

1. Opening remarks and approval of minutes

Ms. Pearce called the meeting to order at 2:03 p.m. Introductions were made.

**Mr. Valente made a motion to approve the minutes of the September 26, 2013 meeting.
Ms. Dagan seconded the motion, which passed unanimously.**

2. Review of Legislative Session and Capital Bill

Ms. Pearce reviewed some of the highlights of the 2014 Legislative session and Capital Bill, including:

- \$3.8 million of premium generated from bonds sales was used towards projects, rather than short-term debt service.
- Authorized but unissued debt has been reduced to a de minimis amount.
- Thanks to Representative Hooper and her Committee for their work in creating an \$8 million Energy Revolving Fund to be used for energy improvements.
- Economic Development Bill passed – up to 10% of capital to be invested in Vermont
- A significant Transportation Bill (>\$650 million) for the 3rd consecutive year.
- There will be no TIB financing this year
- General Obligation bonds will be issued around November. Mr. Wisloski stated that we have approximately \$90 million of authority remaining. The appropriate Agencies will be surveyed to see which projects are ready to spend funds during approximately the next 12 months, and a refunding will be conducted if rates are low enough to allow sufficient debt service savings.
- The newly-created Retired Teacher Health and Medical Benefits Fund will save approximately \$480 million in interest costs over the next 24 years.
- GASB 67 and 68 are coming into effect, which will create uniformity in pension financial statement reporting.

3. Review of Municipal Markets and Recent Developments

Mr. Wisloski reviewed a Bond Buyer article regarding S&P's negative outlook toward State of Rhode Island debt as a result of legislative debate as to whether to honor that state's moral obligation (M.O.) pledge to 38 Studios. A discussion followed regarding the use of Vermont's M.O. pledge. Ms. Pearce stated that the purpose of the M.O. is to lower financing costs for creditworthy projects, and not to provide a guarantee to non-viable projects. Most M.O. requires the approval of the Treasurer and the Governor, but it is automatic for the Bond Bank, UVM and the State Colleges. It is a useful tool, but must stay at a prudent level.

Mr. Wisloski noted that the level of municipal bond issuance is down significantly. He also said that there is continued debate in Congress about capping or eliminating the tax exemption for State and local government bonds. Ms. Pearce said that this would affect all taxpayers by increasing the cost of financing.

A review of the Moody's 2014 State Debt Medians followed. Ms. Pearce noted that Vermont has had slipped in the debt per capita rankings from 37th in 2011 to 30th in 2014. This metric is particularly challenging for Vermont due to slow population growth. Also, after a surge in bond issuance in 2010 upon the expiration of Build America Bonds, states have severely curtailed issuance. Pro-forma debt projections will be provided at the July meeting, and it is expected that reduced debt issuance by Vermont's triple-A peer states will put pressure on the debt per capita constraint.

There was a discussion of the various metrics and their relevance, and the appropriate levels of debt. Mr. Spaulding said that there has been a positive impact from the AAA rating, and we should be reluctant to make changes that would cause us to lose ground. Mr. Hoffer said that affordability is critical but questioned what opportunities we may lose by not investing capital. The Committee generally agreed that the upcoming needs are greater than the capital available

Deliverables and discussion items for the July meeting were:

- Updated pro-forma debt projections using Moody's state debt medians for 2014, but economic data from 2013
- Discussion with the State's economist regarding impact of capital spending on economic growth
- PRAG to solicit Rating Agencies views regarding the relative importance of the Debt Per Capita metric compared to Debt as a Percent of Personal Income and Debt Service as a Percent of Revenues, which arguably are more relevant to ability to pay
- Review Moral Obligation levels (outstanding and unused)
- Provide a history of changes to the debt affordability report's methodology

4. Public Comment and Adjournment

Ms. Pearce asked if there were any members of the public who wished to comment; there were none.

Mr. Valente made a motion to adjourn the meeting, Ms. Dagan seconded, and the Committee unanimously voted to adjourn at 3:45 p.m.