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Bonding Revision Won't Affect Borrowing

By Neal Goswami, Vermont Press Bureau

MONTPELIER — State Treasurer Beth Pearce said Tuesday that a downward revision in the outlook of the state's general obligation bonds rating by Standard & Poor's will not impact the state's borrowing costs.

S&P revised the outlook on Vermont's AA+ general obligation bond rating Monday to stable, down from positive, based on the state's economic outlook. The revision, according to the rating firm, is a response to the state's slow pace of economic growth, which is lagging behind the country as a whole.

A positive rating indicates expected economic growth over a two-year period, according to S&P, while a stable rating indicates little to no growth is expected in that timeframe.

Pearce said a downgrade to the state's rating would have been a "serious matter."

However, a revision in the outlook will have little impact, she said. The outlook assesses what direction the state's rating may be heading.

"A positive means that the rating may be raised. About two years ago they gave us a positive outlook, which was a good sign," Pearce said. "We did not move to AAA, but it does not change the fact that we are a very strong AA+."

The revision was made despite "strong financial and budget management policies that have contributed to consistent reserve and liquidity levels over time," according to S&P's report outlining the revision. But it also noted "significant pension and other post-employment benefits … which remain sizable relative to those of state peers despite some recent reform efforts."

The report states that Vermont has "a very strong budget management framework," and if that leads to higher reserve levels in the future, the rating could be revised upward. An improved position with pension and other post-employment benefits could also result in an upgrade.

Conversely, the report states that a worse reserve and benefits position could lead to further downgrades.

"Although we do not envision it at this time, given Vermont's history of proactively managing its budget and recent actions to address post-employment liabilities, substantial deterioration of budget reserves or a deteriorating liability position could negatively pressure the current rating," the report states.

Pearce said the state requested a ratings assessment from S&P, Moody's and Fitch as it prepares to issue bonds next week. Pearce said Moody's and Fitch affirmed the state's stable outlook on their AAA ratings of Vermont. S&P chose to revise its outlook of its AA+ rating down from positive to stable.

The plan is to offer $25 million in Vermont citizens bonds, which are available first to Vermonters. Another $50 million in competitive bonds will be available to the open market. Another $36 million in "refunding bonds" will be issued. Pearce said those are similar to a home mortgage, and is an attempt to refinance debt "to lower the cost of financing for the taxpayer."

Pearce said S&P's revised outlook is unlikely to impact the cost of borrowing for the state.

“We don’t see that this will have any impact on the interest rate of those bonds. We still have the highest credit rating in New England and among the lowest in the country,” she said. “We expect our bonds to be very welcome in the market.”

If the state maintains its fiscal discipline through the legislative session set to begin in January and maintains its reserves, the state’s outlook could improve, according to Pearce.

“If we continue to do the right things as the economy does improve, I think we’ll be able to make the case to move … to AAA down the road,” she said of the S&P rating. “We want to continue to aspire to be triple AAA.”