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Strong credit rating helping Vermont bond sales

by Bruce Edwards

MONTPELIER--Vermont has received a clean bill of financial health from Wall Street's major credit rating agencies.

Moody's Investor Service, Fitch Ratings, and Standard & Poor's Ratings Service reaffirmed the agencies' positive ratings for Vermont bonds. The state has the highest general obligation bond ratings of any New England state. The three agencies maintained their previous high rating with a stable outlook.

"I was confident we had done all the right things, that we exercised prudent management," State Treasurer Beth Pearce said. "We've done a good job in terms of our budget, we've got an uncomplicated debt structure, we pay it off quickly."

The state received a triple-A rating from Moody's and Fitch, their highest rating for government bonds. Standard & Poor's reaffirmed Vermont's AA+ rating, the agency's second highest rating. The rating agencies conducted the review in preparation for the state's upcoming bond sale. The better the credit rating the lower the interest rate the state has to pay on the bonds it sells.

The state on Monday will offer to sell $25 million in State of Vermont Citizen Bonds along with up to $72 million in general obligation refunding bonds. Later this week, the state expects to issue $28 million in additional general obligation bonds and $10 million in taxable general obligation bonds. Bonds, which are sold through registered broker/dealers, raise money to finance infrastructure and other capital projects.

Last year, with a new governor taking the reins in Montpelier, state officials, including Gov. Peter Shumlin, traveled to Wall Street and met with representatives of the three rating agencies to update them on the state's finances and issues facing the state, Pearce said.

This year, with the upcoming bond sale, the state provided the rating agencies with detailed information on the state's financial picture along with a prospectus on the bond sale. That was followed several weeks ago by a conference call with the rating agencies and stateofficials, that included Shumlin, Secretary of Administration Jeb Spaulding, economist Jeffrey Carr, Pearce and her staff. Pearce said in particular what impressed the agencies was the way the state went about handling the aftermath of Tropical Storm Irene.

"We were able to tell them good news about Vermont, that we did get 500 miles of roads back in order after Irene," Pearce said. "That we've managed this with very manageable costs going forward and having a measured approach to our recovery from that."

Pearce said the state is further boosting its financial strength with an increase in this year's budget for the general fund stabilization. She said the administration is proposing to increase the amount set aside from 5.25 percent to 5.5 percent. She said the long-term goal is to increase it to 8 percent. The money is set aside as a “rainy day” fund to cover expenditures in the event of a revenue shortfall.

Last summer, Vermont was able to withstand challenges to its credit ratings. With a stalemate in Washington over the deficit and raising the debt ceiling, Moody’s warned Vermont and 14 other states with the highest credit rating that their ratings would be reviewed, if the federal government defaulted on its debt. However, when Moody’s decided to review only five of the 15 states, Vermont was not on that list.

The financial crisis of last summer prompted Standard & Poor’s to downgraded the credit rating of the federal government from AAA to AA+ with a negative outlook. In stark contrast, S&P maintained Vermont’s AA+ bond rating. This week’s bond sale, originally set for last October, was postponed after Tropical Storm Irene in order to allow the state to gauge damage and related costs.

The preliminary official statement for today’s offering is available on the State Treasurer’s website at www.buybonds.vermont.gov.

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