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State Debt Committee Recommends a 5% Increase in Capital Borrowing

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Montpelier –At a meeting Tuesday morning, September 30th, the Capital Debt Affordability Advisory Committee (CDAAC) voted to recommend raising the state's annual capital bonding level to $41 million, a 5% increase, beginning in the next fiscal year.

The CDAAC was created by the Legislature to recommend to the Legislature and Governor the amount of money that should be borrowed each year. The Legislature and Governor have traditionally adhered to the Committee's recommendation. Since 1999, the Committee has recommended a level of $39 million in new bonding each year. At its meeting last year, the Committee agreed to consider building in an inflation factor in the future. State Treasurer Jeb Spaulding, Committee Chair, said the CDAAC reached a unanimous recommendation on next year's bonding level. The Committee held a public hearing in August and considered possible bonding levels from $39 million to $45 million for Fiscal Year 2005.

According to Spaulding, "At a $41 million borrowing level, I believe Vermont will be appropriately balancing the need to invest in state infrastructure and the need to continue to improve our State debt profile. This recommendation maintains fiscal discipline while increasing the State's ability to invest in its future through infrastructure improvements."

Spaulding stated the $41 million level because it will allow Vermont to lower its debt-to-personal-income ratio to the national median by 2005 – the same year that the current $39 million debt level would reduce the State of Vermont's debt-to-personal-income level to the national median. Raising the debt level beyond $41 million would delay reaching the national average on debt-to-personal income ratio, which is a major factor in the determination of a state's credit rating. Vermont's debt- to-personal-income ratio has declined from 4.9% in 1996 to its current level of 2.9%.

"Given so much movement by credit rating agencies toward downgrading states, I believe it is important to demonstrate continued discipline on new debt issuance at this time," cautioned Spaulding. "A $41 million debt level continues to send the right message to the rating agencies."

The amount of interest that a state pays on its bonds is influenced by its credit rating. If Vermont's credit rating decreases, it will pay more interest on its debt. Currently, Vermont has the highest credit rating in New England. Vermont has achieved this rating by making sustained and substantial progress in reducing key debt indicators, such as the debt-to-personal-income ratio. A recent Fitch Ratings publication stated, "Vermont's conservative approach to debt and financial operations provides a strong foundation for high credit quality."