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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

DRAFT
Capital Debt Affordability Advisory Committee
Minutes of Meeting of Monday, September 23, 2024

CDAAC Members Attending
MIKE PIECIAK, CDAAC Chair, State Treasurer
DOUG HOFFER, State Auditor of Accounts
SEAN BROWN, Agency of Administration
PREMILA PETERS, State Treasurer Appointee
GORDON WINTERS, Gubernatorial Appointee
THOMAS KAVET, Legislative Economist
MICHAEL GAUGHAN, Vermont Bond Bank Representative

Also Attending
JEFF CARR, Economic & Policy Resources, Inc.
TOM HUESTIS, Public Resources Advisory Group
STEVE WISLOSKI, Public Resources Advisory Group
EMILY BYRNE, Joint Fiscal Office
SCOTT MOORE, Joint Fiscal Office
CHRIS RUPE, Joint Fiscal Office
NICOLAS KRAMER, Department of Finance & Management
AARON BRODEUR, Department of Finance & Management
WILL ANDERSON, Department of Finance & Management
GAVIN BOYLES, Deputy State Treasurer
ASHLYNN DOYON, State Treasurer's Office
GEORGE STEELMAN, State Treasurer's Office
JUSTIN ST. JAMES, State Treasurer's Office
JEREMIAH BREER, State Treasurer's Office
SCOTT BAKER, State Treasurer's Office

Treasurer Pieciak called the meeting to order at 10:03 a.m.

Mr. Huestis suggested moving the proposed changes to the CDAAC statute until after the review of the draft report. The committee agreed to the agenda change.

Ms. Peters made a motion to approve the minutes of the September 18, 2024 meeting, which was seconded by Mr. Gaughan, and passed unanimously.

Public Comment

Treasurer Pieciak asked if there were any members of the public who wished to comment, but there were none. Ms. Doyon told the committee that all meetings are warned and notice is posted to the list of public meetings on the Department of Libraries website.

2024 CDAAC Report

Mr. Wisloski reviewed updates to the draft 2024 CDAAC report. He noted that the Subscription Based Information Technology Arrangements (SBITAs) are being included in the Debt Statement.

Mr. Hoffer asked why a debt issuance scenario of $50 million was being run. Mr. Kramer answered that the Agency of Administration was curious to see what a lower amount would look like since there are alternative funding mechanisms available now, so that General Obligation borrowing is not the only source of funding. Mr. Huestis recalled an earlier comment also indicated that it was important for the State to spend down the federal money and the ability to spend a larger amount was uncertain. Mr. Brown added that the debt recommendation has been decreasing and there is still a large amount of authorized but unissued debt. He said that there are limited contracting resources available due to the needs since the flood. He said that the request to run a $50 million scenario was not a recommendation.

Mr. Winters asked the amount of the authorized but unissued debt. Mr. Wisloski answered that it had been in the $220 million range at one point, but will be at $150 million as of June 30, 2025. With an estimated bond issuance of $75 million in the Spring, that amount will be down to approximately $75 million. He explained that the debt scenarios had assumed a three-year period to spend down the remainder of the unissued amount, but the Administration had guessed that it may take five years. Mr. Hoffer commented that extending that for five years would have an effect on the cost and we should provide guidance to the legislature, which should help them prioritize what is out there.

Mr. Wisloski said that CDAAC started targeting AAA states in 2004. Although there were only seven States with that rating at the time, that group has expanded. Mr. Gaughan commented that it makes sense to incorporate the AA states into the peer group. Mr. Wisloski said that they did compile a list with the additional states.

Mr. Hoffer commented that personal income used in the metrics does not include realized capital gains, in which Vermont ranks very high. This comment will be included in the report. Mr. Hoffer also commented that there are AAA rated states that have debt metrics significantly higher than Vermont, and that although metrics are important, they are not nearly as much as they used to be due to the pension and OPEB liabilities.

Possible change to statutory language

The committee discussed the comment around a possible change in the language around issuing an annual report. Mr. Huestis noted that the recommendation amount has never changed in the interim year of the biennium and that it is a lot of work to produce the report which does not have a lot of new information. He said that if something happened, such as a flood, the Governor and legislature could direct CDAAC to review in the interim year. Mr. Kavet commented that given the speed which things change, he thinks that an annual check-in is useful and would not recommend going to a biennial report, but perhaps a more condensed report in the interim. After further discussion, the consensus was to leave the language unchanged.

The Committee also discussed the metrics specified in the statue and whether to include mention of other long-term liabilities. Mr. Hoffer suggested that the committee should also explore possible metrics related to the State's economy that could be used to educate the rating agencies. He feels that they should not be limited to only what the rating agencies criteria. Mr. Huestis answered that we are discussing the economy with them and he isn't aware of any metrics that would alter their view. Mr. Hoffer replied that we can use alternative data to inform their decision, and there may be metrics available even if we are not using them now. Mr. Brown also commented that there are regular meeting with the agencies and that they do make that pitch. Mr. Hoffer expressed his disappointment in the consensus not to add language to the statute.

The discussion of adding language related to long-term liabilities continued. Ms. Peters noted that Debt Per Capita was not specifically mentioned in the statute. Mr. Boyle commented that the existing language does compel the committee to only consider what is mentioned. Mr. Wisloski noted that the new S&P methodology looks at Debt Per Capita.

The suggestion of extending the CDAAC report date until October was removed but mention of the capital depreciation model should be included. Mr. Gaughan noted that GASB will be requiring more disclosure around the spending.

Metrics and Affordability Projections
Mr. Wisloski said that they have compiled a list using the expanded peer group. Seven additional AA rated states were added to the 17 AAA rated states. He displayed the table with the full group and noted that Vermont would rank 11 in Debt Per Capita (DPC) and close to the middle of each group in Debt as a Percentage of Personal Income, Debt as a Percentage of GDP, and Capital Asset Depreciation Ratio. He said it is up to the committee whether to adopt the additional states into the peer group, but it useful to see where Vermont ranks.

Mr. Wisloski showed the results of the $50 million scenario, noting that the authorized but unissued amount was spread out among the first five years. The model shows that DPC is down to $914 by year 10 and all other metrics are well below the state guideline. He noted that the 6% guideline for Debt as a Percentage of Revenues was set at 8% in 2004, and later reduced to 6%. He suggested that a 4% guideline would ensure that money went into the Cash Fund each year. Mr. Kramer said they would welcome the 4% level. Mr. Wisloski noted that this scenario does not differ much from the previous $54 million run. Mr. Gaughan and Ms. Peters both commented that they support the change to a 4% guideline.

The meeting was adjourned at 12:04 p.m. following a motion made by Mr. Gaughan and seconded by Mr. Brown.