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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

Capital Debt Affordability Advisory Committee
Debt Affordability Working Group
Minutes of Meeting of Monday, September 27, 2021

Working Group Members Attending
BETH PEARCE, State Treasurer
DOUG HOFFER, State Auditor
DAVID COATES, CDAAC Committee member
DAVID KIMEL, CDAAC Committee member
THOMAS KAVET, CDAAC Committee member

Also Attending
TOM HUESTIS, Public Resources Advisory Group
CHRISTINE FAY, Public Resources Advisory Group
WILL KRIEWALD, State Treasurer's Office
ASHLYNN DOYON, State Treasurer's Office
SCOTT BAKER, State Treasurer's Office
JEFF CARR, Economic & Policy Resources, Inc.

Ms. Pearce called the meeting to order at 2:05 p.m.

Mr. Coates made a motion to approve the meeting agenda, which was seconded by Mr. Kimel and was approved unanimously.

Mr. Coates made a motion to approve the meeting minutes of September 7, 2021, which was seconded by Mr. Kimel and approved unanimously.

Mr. Hoffer reviewed the main points of his memo.

- He feels that while the approach of the rating agencies is understandable since they are working with all 50 states, it does not deal with differences among the states.
- He expressed concern about the committee's reliance on metrics
- Looking at OPEB is appropriate, but the rating agencies do not seem concerned with the little stuff.
- Without challenging the validity of metrics, he is struck that the actions of other states results in changes to our relative position in rankings.
- Projecting debt issuance over a ten-year horizon is in statute, but it is unreliable. To assume that we should use the same amount of issuance is not in statute. This has led to decision of how much to recommend because one or more metrics are out of compliance.
- Debt Per Capita is not a great measure, and he questions why the Committee still uses.

- The statute calls on CDAAC to consider the economic and financial impacts. They do not do a cost-benefit analysis.
- The rating agencies should consider the importance of infrastructure spending, as it has measurable value. States that have delayed spending will pay the price as problems will only get worse and more expensive.
- Personal income used in the calculations does not include capital gains. Therefore, part of what is considered the state's ability to pay does not include total income. We also get people from other states to pay our taxes, which is not part of the analysis.
- Although big states are rewarded, there are outliers and bigger is not always better.
- He feels strongly that we should submit data about Vermont's economy to the rating agencies.

Mr. Coates said that he was not aware that capital gains were not included in personal income and agreed that we get a disproportionate amount of taxes from non-residents. We should take this opportunity to educate the rating agencies on these factors.

Mr. Hoffer suggested changing the guidelines that CDAAC relies on. He said there is no risk in speaking to the agencies about how the current situation does not benefit us. We should try to give them more information.

Mr. Kimel said he appreciates the work that Mr. Hoffer has done. Although we need to replicate the agencies' numbers, we should continue to look at additional data, and it is good to discuss in our publications.

Mr. Huestis told the group that we interface with the rating agencies when we are bonding (usually on an annual basis), provide updates when budget is passed, and ad hoc if we feel it is important. PRAG also has informal contact at times. He said we present a lot of information in our bond presentations, but it should not be a problem to give them additional information.

Mr. Carr recalled when the agencies changed their state size criteria. Although there were extensive talks, they changed them anyway. Ms. Pearce said that NAST wrote a letter to object, but they did not have a lot of luck. It is worth having that discussion once again.

Ms. Pearce suggested dropping Debt per Capita from the criteria but include in the appendices. Asked if this would impact the rating agencies, Mr. Huestis replied that he did not think so. This has not been a controlling metric over the last couple of biennium. He said that we could show this on our dashboard. Mr. Kimel does not think that we should drop anything that they look at, but defers to Mr. Huestis on what he thinks is impactful. He feels we should mention in our report that while we look at it, we may not rely on it.

The group discussed the process going forward and decided that while the CDAAC report is due by September 30, they should continue to meet and report to the full committee and possibly submit a supplemental report before the legislative session.

Mr. Huestis said that personal income is used by most every state in their debt affordability metrics. If capital gains were to be included, he is unsure of how to run the projections.

Personal Income and Gross State Product are very similar. The group also discussed the use of the ten-year issuance projection.

Ms. Fay said that S&P put out a report in June that mentioned that states are under invested in infrastructure, raising concerns. It said that pensions and OPEB are crowding out capacity for infrastructure. Mr. Hoffer commented that employee health care costs were almost equal to pension contributions. Ms. Pearce said they will be submitting proposals for OPEB prefunding.

At the next meeting, the group will revisit what other states are doing.

There was no public comment.

Following a motion by Mr. Kimel, seconded by Mr. Coates, the meeting was adjourned at 3:08 p.m.