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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

Capital Debt Affordability Advisory Committee
Minutes of Meeting of Thursday, August 29, 2024

CDAAC Members Attending
MIKE PIECIAK, CDAAC Chair, State Treasurer
DOUG HOFFER, State Auditor
SEAN BROWN, Agency of Administration
PREMILA PETERS, President, Data Innovations
DAVID KIMEL, Former Chair, Vermont Bond Bank
THOMAS KAVET, Legislative Economist

Also Attending
JEFF CARR, Economic & Policy Resources, Inc.
TOM HUESTIS, Public Resources Advisory Group
CHRISTINE FAY, Public Resources Advisory Group
STEVE WISLOSKI, Public Resources Advisory Group
CATHERINE BENHAM, 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
JEREMIAH BREER, State Treasurer's Office
SCOTT BAKER, State Treasurer's Office
EMILY BOWERS, State Treasurer's Office
GEORGE STEELMAN, State Treasurer's Office

Treasurer Pieciak called the meeting to order at 1:05 p.m., which was followed by introductions. It was noted that Mr. Gaughan was not able to attend but had emailed his comments in advance. Treasurer Pieciak also announced that David Coates had submitted his resignation from the Board, and that a replacement would be coming shortly.

A motion to approve the minutes of the September 25, 2023 meeting was made by Mr. Kimel, and seconded by Ms. Peters. The motion was approved unanimously.

Review of State G.O. Bond Sale

Mr. Wisloski reviewed the results of the State's June 2024 General Obligation bond sale. He explained that there were two series which were both sold on a competitive basis and achieved very good results, with total interest costs of 3.50% for the Series A and 2.988% for the Series B.

Treasurer Pieciak added that the negotiated sales offerings in the past had been more costly in recent years so a competitive basis saved the taxpayers some money, although we lost the ability to offer Citizen bonds. We will look to do offer these again, perhaps every other year.

Mr. Wisloski compared the rates paid for each maturity to the MMD scale for AAA rated offerings and noted that the Vermont sale was priced better than other AAA rated offerings in many cases. Ms. Fay added that this was a fantastic result and they have not seen the same results in the market since. Mr. Kimel asked if they could quantify the amount of savings that this produced. Mr. Huestis explained that due to the volatility in the market, as well as other factors, any comparisons would not be very illustrative. Mr. Wisloski estimated that each basis point of savings would equal approximately $65,000. Ms. Peters commented that it was smart to do a competitive offering with interest rates at the current high levels.

Rating Agency Criteria

Ms. Fay said that the State met with Moody's, Fitch, and S&P ahead of the bond sale and all three agencies affirmed the ratings (Aa1, AA+, AA+, respectively), which are one notch below the highest possible. Although each agency has their own criteria, they all referred to similar strengths (strong financial management practices, governance, high reserves, income levels, liquidity, budget performance) and concerns (demographics, aging population, slower economic growth and higher liabilities compared to other states). Ms. Fay also reviewed some specific items from each agency and how they are weighted. She also mentioned some of the factors from Maine's recent upgrade.

Review of CDAAC Statute

Mr. Wisloski noted that the CDAAC statute was changed in 2023 to clarify that the legislature did not want the committee to factor in the "Cash Fund" in lieu of bond issuance. Otherwise, the statute has not changed a lot since it was originally written. Some possible updates that the committee may want to consider include:

- Incorporating pension and OPEB liability metrics
- Allowing more flexibility regarding criteria used
- Consider including the Education Fund in the criteria
- Moving to a biennial reporting cycle
- Incorporating a capital asset depreciation ratio

Mr. Huestis explained that the original drafters of the statute were trying to insure that CDAAC was reviewing the same criteria that the rating agencies were looking at, so it is good to stay in line. He mentioned that Moody's has started including the Education Fund, and S&P has always done so.

Mr. Hoffer commented that CDAAC is an advisory group, so there would be not complaints if it were to expand on any criteria used, and the committee is tasked to do more. It should not be about satisfying the rating agencies, but rather about educating them. He also stated that he would be asking the legislature to make the State Auditor a voting member of the committee (as it was in the past). Mr. Kimel agreed that the recommended changes are good ones, but they would have to expand what they review and incorporate them into the debt recommendation. He also likes the idea of a two year report, but it would be important to continually review. He observed that the CDAAC is not conducting ongoing reviews of the amount and condition of bonds and other obligations as mentioned in the statute.

Treasurer Pieciak suggested that the debt recommendation could be changed in the interim even if they are not required to submit an annual report. Mr. Kavet asked if the addition of the Education Fund would include all property tax money or just the allocated parts from the General and Transportation Funds. Including the property tax would expand the source of revenue considerably, but would also add a lot of expense. He also said that including the pension and OPEB amounts is obvious in keeping in lockstep with the rating agencies. He is in favor of a truncated report or an executive summary in the interim year, but not in going to a biennial report. Due to the speed in which things occur, annual monitoring and adjustments are needed. Ms. Peters agreed that with the high level of uncertainty, meeting annually is important governance.

Mr. Boyles relayed the comments which were submitted in an email from Mr. Gaughan, including that the legislative language should include "governmental units" rather than just municipal debt; and it would be important to understand the impact of including pension and OPEB amounts as these would be the clear drivers in the calculations.

Mr. Brown said that it would be important to see the final language before voting on any suggested change to the statute.

Review of Work Plan
Mr. Huestis recommended that between now and the next meeting (September 18th), they would work on the first draft of the report, the ten year projections, and possible updates to the statute. Treasurer Pieciak said that his office would work on updates to the statute language and circulate ahead of the meeting. Mr. Huestis also suggested that we have others (from Finance & Management, BGS, Joint Fiscal Office) give presentations of projected capital needs.

Mr. Kavet asked if the objective is to defend the current debt rating or to improve it. Mr. Huestis answered that the metrics used are trying to get to an AAA. Mr. Kavet stated that we have little short-term control over some issues such as demographics and the economy, but we do have long-term control over the pension fund situation, although the benefit may not be worthwhile given the results of the recent sale.

2023 CDAAC Report
Mr. Wisloski summarized sections of the Final 2023 CDAAC Report. Mr. Hoffer commented that although the statute requires the committee to do ten year projections, it is not required to assume the same issuance level for ten years, which matters for the calculation of the Debt Per Capita metric.

Mr. Kimel made a motion to approve the Final 2023 CDAAC report, which was seconded by Ms. Peters. The report was approved unanimously.

Treasurer Pieciak asked if there were any members of the public that wished to comment, but there were none.

Mr. Hoffer mentioned that he appreciated the efforts of Mr. Coates throughout the CDAAC process.

The meeting was adjourned at 2:59 p.m. following the unanimous vote on a motion by Ms. Peters and seconded by Mr. Kimel.