**DRAFT**

**Capital Debt Affordability Advisory Committee**

**Minutes of Meeting of Wednesday, September 18, 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

DAVID KIMEL, Gubernatorial 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

CHRISTINE FAY, Public Resources Advisory Group

STEVE WISLOSKI, Public Resources Advisory Group

EMILY BYRNE, Joint Fiscal Office

SCOTT MOORE, Joint Fiscal Office

NICOLAS KRAMER, 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

SCOTT BAKER, State Treasurer’s Office

Treasurer Pieciak called the meeting to order at 9:02 a.m.

**A motion to approve the minutes of the August 29, 2024 meeting was introduced by Mr. Kimel and seconded by Ms. Peters. The motion passed unanimously, with Mr. Gaughan abstaining.**

Treasurer Pieciak introduced Gordon Winters as the new Governor appointee to the CDAAC committee.

**Ten-Year Capital Plan**

Mr. Kramer said that the administration is in the process of crafting the ten-year plan and that it would be updated in the Fall, and that this illustration is based on the most recent plan. He explained the process of how the plan is created. Instructions have been sent out to the various departments requesting capital funds, asking them to prioritize their requests. The Department of Finance and Management (F&M) compiles the list and meets with the Governor. F&M then develops the capital plan, which is due by the third Tuesday in January, based on the Governor’s priorities. Mr. Brown added that the instructions to the departments are issued with financial targets, which can be a challenge since they do not receive the authorization recommendation from CDAAC until the end of September. The plan and the recommended capital bill is then presented to the legislature.

Mr. Kramer said that there are always significant capital needs included in the ten year plan. He cited examples from the most recent plan such as the women’s correctional facility, the Newport courthouse replacement, the fish hatchery and the Waterbury dam. He also mentioned that the capital bill contains many recurring items, such as BGS major maintenance. Mr. Brown added that there is also a significant amount of policy discussion involved, and a lot of unpredictability. For example: many people believe that money should be put into prevention rather than a new correctional facility; or it should include a re-entry component, what should the bed count be, etc..

Mr. Gaughan asked if there anything that was not being captured in the plan. Mr. Kramer said that money is being set aside for projects and that everything being shown is from the last round and is the net total from the set aside. They ask the departments to notify them of anything that they are aware of to include in the ten year plan. He said that the top priorities are always a piece of the capital bill. The latest ten-year plan shows an estimated need of approximately $86 million per year.

Mr. Gaughan asked if the Department of Buildings and General Services (BGS) was making them aware of all big ticket items. Mr. Brown confirmed that they are capturing those and that if something were to become a large cost, it would become a separate project within the capital bill. Mr. Kramer said that anyone that has received capital appropriations within the past ten years will get a copy of the plan, so they are generally aware of anything extraordinary.

When Ms. Peters asked about the ARPA funds, Mr. Kramer answered that the deadline for obligating the funds was December 2024, with a spending deadline of December 2026. They are in the process of confirming and finalizing the obligations. The Chief Recovery Officer and their team is tracking and re-allocating funds, if necessary. He confirmed that this project list is for capital funds and outside of the ARPA funds. Mr. Brown said that immediate repairs due to the flooding is being covered by FEMA, but there is money being set aside for the 10% State match. He said that many of the damaged buildings will undergo flood mitigation in the coming years and expects that most of the cost will be outside of the capital bill.

Mr. Kavet commented that it is difficult to forecast ten years out. He suggested that adding a line item for climate change would be looked at favorably by the rating agencies given their ESG consideration. Mr. Kramer said that there is money being set aside in case of FEMA denials, and Mr. Brown added that although there is no specific line item in the capital bill yet, consideration is given to any new projects.

Mr. Kimel stated that the criteria for the committee to consider is affordability, and how their decision might affect the bond rating. However, they must also consider the need, so it would be helpful if they had a stronger idea of that.

Mr. Brown said that due to changes in how people are working, they are starting to look at the footprint of the State’s owned and leased space. This affect future needs and may relieve some pressure on the capital bill, but may also require different building space.

**2024 CDAAC Report**

Mr. Wisloski reviewed the current draft version of the 2024 CDAAC report, noting updates from the final 2023 report. Mr. Wisloski mentioned that the Moody’s state debt median report is not yet available. Mr. Hoffer commented personal income does not include realized capital gains, and Vermont is among the states with the highest amount. He asked if we could mention this in the report, and possibly adjust the metrics for this. There were other minor presentation suggestions from committee members.

**Metrics and Affordability Projections**

Mr. Wisloski introduced the four debt issuance scenarios that were produced. He explained that the committee is charged to run ten year projections. Although not mentioned, he practice has been to run those projections using a stable amount of issuance throughout those ten years. The scenarios produced have also been run assuming that the $150 million of authorized but unissued amount will be issued equally over the first three years (this is a recent change from previous years when the full amount was included in year one). Mr. Brown commented that we should carefully consider what we assume for the authorized but unissued amount. Mr. Wisloski also reviewed the three debt metrics which have historically been considered (Debt per capita, Debt as a percentage of personal income, Debt service as a percentage of revenue) and the state guidelines being used. He said that the legacy guideline for debt service as a percentage of revenue has been 6%, above the 4% benchmark for benchmarks for the cash fund appropriation, which Mr. Kramer said was a policy conversation. Mr. Gaughan also noted that any refunding savings are not reflected in the projections.

The first scenario showed the current recommended authorization of $54 million of issuance per year, with the authorized but unissued amount being issued evenly for the first three years (resulting in a total of $86.233 million for years 1-3). The result is a lower amount of outstanding debt by year ten since the amortizing debt is larger than the issuance amount.

The second scenario assumes an annual issuance amount of $86 million, the amount which was referenced in the ten-year capital plan presentation. (The same assumption of issuing an additional $32.33 million in the first three years due to the authorized but unissued amount is used in all scenarios).
Since the issuance amount is higher than the amount of debt being paid down, the result is a higher amount of outstanding debt after ten years. Although the projected debt per capita is increasing, the other two metrics are within the state guideline. And since the projected debt service as a percentage of revenues is below 4%, contributions to the cash fund would still occur.

The third and fourth scenarios use the same debt issuance assumptions as the first two, but include the pension and OPEB liabilities in the calculations. The result is that the metrics are very high, although they get better over time since the pensions and OPEBs have a closed amortization period. Mr. Hoffer commented that since the pension and OPEB liabilities are the driving force, an additional $5-10 million of debt issuance would have little impact on the metrics.

Mr. Wisloski reviewed the recently released S&P methodology and the impact on the State’s scorecard and commented that the long-term liabilities were already factored in to the rating. Mr. Gaughan agreed that it seems that there is some capacity to increase the current authorization amount. Mr. Brown asked to see a projection scenario of a $50 million annual issuance.

Mr. Hoffer commented that the committee should be looking at the amount necessary to meet the capital needs, as required by statute, and to consider the impact on the economy. Mr. Brown said that there are also alternative sources of funding now, such as FEMA and one-time general fund appropriations, and that affordability is the main statutory charge. Mr. Hoffer replied that the state has had no trouble meeting their obligations. Treasurer Pieciak added that the rating agencies may take note if there are investments that we are not making.

**Public Comment**

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

**The meeting was adjourned at 11:08 a.m. following a motion made by Mr. Kimel and seconded by Mr. Brown.**