ELIZABETH A. PEARCE
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Capital Debt Affordability Advisory Committee

FROM: Scott Baker, Director of Financial Reporting

RE: Minutes of Meeting on Wednesday, August 21, 2013

CDAAC Members Attending
DAVID COATES, CPA, Managing Partner, KPMG (Retired) and VT Business Roundtable
LAURA DAGAN, CFA, Chair, Dwight Asset Management (Retired)
ROBERT GIROUX, Executive Director, Vermont Municipal Bond Bank
DOUG HOFFER, Vermont State Auditor
BETH PEARCE, Chair, Vermont State Treasurer
JEB SPAULDING, Secretary of Administration
JOHN VALENTE, ESQ., Chair, Vermont Municipal Bond Bank

Members of the General Assembly
REP. ALICE EMMONS, Chair, House Committee on Institutions and Corrections
REP. MARY HOOPER, House Committee on Institutions and Corrections
REP. JOAN LENES, House Committee on Institutions and Corrections

Also Attending
MICHAEL OBUCHOWSKI, Commissioner, Buildings and General Services
STEVE WISLOSKI, Deputy State Treasurer
WANDA MINOLI, Buildings and General Services
CATHERINE BENHAM, Associate Fiscal Officer, Legislative Joint Fiscal Office
REBECCA WASSERMAN, ESQ., Legislative Counsel
SCOTT BAKER, Director of Financial Reporting
DYLAN GIAMBATISTA, Executive Assistant
TOM HUESTIS, Senior Managing Director, Public Resources Advisory Group
CHRISTINE FAY, Vice President, Public Resources Advisory Group\

1. Opening remarks and approval of minutes

Ms. Pearce called the meeting to order at 12:05 p.m., thanked the Committee members and guests for their time and interest in the Committee's work on Vermont's behalf, and asked those present and participating via phone to introduce themselves. Ms. Pearce then reviewed the agenda, and requested approval of the minutes from the CDAAC's meeting of September 21, 2012.

Mr. Valente motioned, Mr. Coates seconded, and the Committee unanimously approved the minutes of the September 21, 2012 meeting.

2. Review and discussion of the 2013 Legislative Session and Capital Bill

Ms. Pearce reviewed the 2013 Capital Bill (Act No. 051) and commended the General Assembly on its contents, emphasizing that she found the last several years of Capital Bills to be the most thoughtful and thorough ones she can remember. Rep. Emmons and Commissioner Obuchowski also pointed out that the Capital Bills passed without the need for conference committees, indicating broad consensus and buy-in from the Legislature.

Ms. Pearce reminded the Committee that the 2012 CDAAC Report's 2-year net tax-supported debt recommendation, for fiscal year 2014 and 2015, was $159.9 million, and that the Committee's 2013 meetings were "mid-cycle" in this biennium process. She reported that total authorized spending in Act 051 was $175.3 million, which in addition to the $159.9 million included $7.6 million of bond premium carried forward from fiscal years 2012-2013, $5.7 million of transfers and reallocations from prior projects, and just over $2 million of proceeds from the sale of Building 617 in Essex. was Act 051 appropriates $90.4 million for projects in fiscal year 2014, for which the Treasurer's Office anticipates selling up to $82.6 million of bonds in late October to finance, net of transfers and reallocations, and depending upon readiness of those projects. In addition, Ms. Pearce reported a potential refunding of up to $15 million, for total fiscal 2014 issuance of up to $97.6 million.

(Mr. Spaulding and Rep. Lenes joined the meeting at this time).

Consistent with the Committee's practice in its previous mid-cycle meetings in 2011, Ms. Pearce recommended re-affirming the $159.9 million biennium debt recommendation. She also pointed out that, unlike the 2011 meetings, where a mid-cycle update of Vermont's critical debt ratios indicated increased capacity, this year's analysis was indicating downward pressure due to reduced bond issuance from Vermont's triple-A rated peer states. This information is preliminary at this time and she was not recommending any change in recommendation. Ms. Pearce then invited members of the General Assembly to comment on the past legislative session.

Rep. Emmons said that we were fortunate to have the additional premium and reallocation, although this will not always be the case. She said that some of the pressures that her committee has been grappling with include: energy efficiency, school construction, water and sewer projects at the town level, and water quality issues. Rep. Lenes said that there is also major maintenance needed with the colleges and universities. Rep. Hooper also said that there may also be pressure to build a detention center. Rep. Emmons followed up by saying that the corrections piece is a sleeper issue – a 200-400 bed detention center may be needed, which could cost $35-50 million. She said that aging correctional facilities will also need to be addressed in the next 5-8 years.

Mr. Spaulding said that there are more pressures than will be able to be met, and that this was true of the General Fund, Transportation and Capital budgets. He indicated that Vermont's excellent bond ratings provide substantial benefits to the State, and that there will always be limitations to how much can be financed in any given year or biennium period.

3. Review and discussion of Vermont Bond Ratings, Moody's and S&P Reports

Mr. Wisloski reviewed three reports from the rating agencies, beginning with the Moody's 2013 State Debt Medians report. He said that new bond issuance has been muted, with Net Tax Supported Debt showing the slowest growth in 20 years. Vermont's debt per capita ranking slipped to 33rd (at $811) from 34th in 2012 and a high of 37th in 2011 (50th out of 50 states is best). Vermont's debt as a percent of personal income ranking also slipped to 35th (at 1.9%) from its high of 36th in 2010 through 2012, even though Vermont's metric was actually down from 2.0% in 2012. This means that Vermont's relative position in the latter metric slipped relative to other states, despite an absolute improvement in the number. Mr. Wisloski said he would include an updated presentation of Vermont's historical rankings at the next meeting.

Mr. Wisloski then highlighted several sections of the Standard & Poor's (S&P) U.S. State Debt Review, noting that (1) Vermont repaid its $77 million Unemployment Insurance Trust Fund loan to the federal government without borrowing, (2) the State has continued to avoid deficit financing, even in the depths of the 2008-2009 Great Recession, (3) S&P cites Vermont's debt affordability committee, and the Administration and Legislature's consistent adoption of its recommendations, as a credit positive. He also noted that Vermont's Transportation budget has been at record levels (over $650 million) over the past two years. Mr. Spaulding noted that much of the infrastructure funding has been as a result of ARRA and Tropical Storm Irene, and it resulted in many projects being paid for with federal highway funds. Ms. Dagan asked how Vermont's Transportation funding and spending compared to other states, and Mr. Wisloski indicated that the Treasurer's Office would inquire with the Agency of Transportation and try to have this information for the next meeting.

Mr. Wisloski then reviewed the newly-published Moody's U.S. State Ratings Methodology. Ms. Pearce remarked that the new Moody's criteria's more quantitative approached resembled S&P's similar efforts in 2011, and will be helpful in adding focus to the Committee's analysis and recommendations. Mr. Wisloski reviewed Moody's major factors – Economy, Governance, Finances and Debt – and related sub-factors, and indicated that he thought Vermont general scored in the Aaa category in most of them. Ms. Pearce asked Mr. Wisloski and Mr. Baker to meet with Mr. Spaulding, the Commissioner of Finance and Management, and the Joint Fiscal Office to conduct a more detailed factor-by-factor scoring assessment, similar to what was done for the S&P rating criteria in 2011.

Finally, Mr. Wisloski reviewed the 10-year debt projection from the 2012 CDAAC Report, along with three alternative scenarios updated with 2013 data. Mr. Wisloski emphasized that these were very preliminary in nature, and were only being provided to advise the Committee and Legislature of downward pressure on the fiscal year 2016-2017 recommended debt authorization if present issuance trends among Vermont's triple-A rated peer states persist. The three scenarios were:

(1) Scenario 1, which is a baseline using the current recommendation, assumed $79.95 million of issuance each year through fiscal year 2024 (and a 2016-2017 biennium issuance of $159.9 million), and indicated Vermont would exceed its debt per capita (DPC) constraint during fiscal years 2015 through 2021.

(2) Scenario 2, which showed reduced issuance of $67.38 million each year through fiscal year 2024 (and a 2016-2017 biennium issuance of $134.72 million), and indicated Vermont would only exceed its DPC constraint in fiscal years 2015.

(3) Scenario 3, assuming 2014's data was identical to 2013's, and dropped 2004 from the 10-year averages, which showed further reduced issuance of $53.825 million each year through fiscal year 2024 (and a 2016-2017 biennium issuance of $107.65 million), and indicated Vermont would exceed its DPC constraint in fiscal years 2015-2016.

Vermont never exceeded its critical debt ratios of debt as a percent of personal income, or annual debt service as a percent of revenue, in any of the scenarios. Mr. Spaulding said that although we do not want to be viewed as changing our criteria, DPC is the least meaningful of the indicators. Mr. Huestis agreed, but said that it remains as one of the Rating Agency indicators.

Ms. Pearce advised that the Committee will re-run these indicators again, using 2014 data, as part of the Committee's normal process next year, but also advised that she wanted to be clear to all stakeholders that current trends point to downward pressure on future recommended debt authorizations.

(Rep. Emmons left the meeting at this point, thanking the Committee for its work and the members of her committee for attending).

4. Discussion of CDAAC Report contents and work plan for 2013

Mr. Wisloski indicated that he and Mr. Baker will work with PRAG to distribute a first draft of the 2013 CDAAC Report to the Committee before the next meeting. Ms. Pearce suggested that the topics of discussion should include:

1. A discussion of the Committee's recommendation to maintain the current $159.9 million biennium authorization
2. Federal tax policy and threats to municipal bond tax exemption
3. Future capital demands and long-term capital planning
4. Financing of the Waterbury State Office Complex and State Hospital
5. Impact of federal budget sequestration, especially on the State's Build America Bond (BABs) subsidies

Mr. Giroux also suggested that we include any feedback that we have had from the Rating Agencies. Mr. Wisloski suggested that we also discuss the General Fund Balance Reserve. Ms. Benham mentioned that we should acknowledge that the Legislature has adopted long-term planning, and expanded it to a 10-year horizon. Ms. Dagan pointed out that the long-term trends could impact the Legislator's decisions on authorization levels.

Mr. Valente motioned that staff be authorized to include in the draft 2013 CDAAC Report a statement that the Committee reaffirms the current net tax-supported debt recommendation of $159.9 million for the fiscal year 2014-2015 biennium, and Ms. Dagan seconded (at this point, Mr. Hoffer asked, and was advised that the State Auditor is a non-voting member). The motion passed unanimously.

5. Public comment and adjournment

Ms. Pearce asked if any members of the public were on the call and wished to comment; there were none.

Mr. Coates motioned, Mr. Valente seconded, and the Committee unanimously voted to adjourn the meeting at 2:04 p.m.