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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 Tuesday, July 8, 2014

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. CYNTHIA BROWNING (Arlington) (via telephone)

Also Attending
STEVE WISLOSKI, Deputy State Treasurer
WANDA MINOLI, Buildings and General Services
EMILY MONTGOMERY, Buildings and General Services
STEVE KLEIN, Legislative Joint Fiscal Office
CATHERINE BENHAM, Legislative Joint Fiscal Office
REBECCA WASSERMAN, ESQ., Legislative Counsel
SCOTT BAKER, State Treasurer's Office
DYLAN GIAMBATISTA, State Treasurer's Office
TOM HUESTIS, Public Resources Advisory Group
JEFF CARR, Economic & Policy Resources, Inc.
HILARY NILES, VTDigger

1. Opening remarks and approval of minutes

Ms. Pearce called the meeting to order at 2:00 p.m.

Ms. Dagan made a motion to approve the minutes of the June 3, 2014 meeting. Mr. Valente seconded the motion, which passed unanimously.

2. History of methodology

Mr. Hoffer noted that when comparing Vermont to other AAA rated states, Vermont scored favorably in several other metrics. He handed out a series of charts which demonstrated this.

Mr. Wisloski reviewed the charts from the package, showing the trend of outstanding debt over the last 20 years, noting that it has leveled off over the last four years or so. He also said that the Debt Per Capita has continued to increase in recent years, mainly because the population of Vermont has remained flat.

Mr. Wisloski explained that we compare Vermont's metrics with other states that have at least one triple A rating. This was a relatively stable group until 2007, but has seen many changes since then. Vermont was not a triple A state when we started making these comparisons.

Ms. Pearce said that the scenarios presented in the package are for discussion purposes only, and do not reflect recommended amounts of debt issuance.

Mr. Giroux commented that Vermont has a relatively high percentage of people over the age of 18 – those that are actual taxpayers who are repaying the debt. Ms. Pearce agreed and said that we should make a point to mention this to the rating agencies.

3. Rating agency feedback regarding Debt Per Capita

Mr. Huestis said that he spoke to the three rating agencies regarding the weight that they place on Debt Per Capita measure. He said that the opinions varied; one agency does not focus on DPC at all, instead looking almost exclusively at Debt as % of Personal Income. Another agency reports DPC, but does not use in their new rating criteria, instead focusing on Debt as % of Operating Revenues. They do note in their ratings report that deterioration in the debt percentages could affect the rating. The third agency uses a more standardized method of rating, with the Debt and Liability Profile being one of five areas being reviewed, and representing 10% of the weighted value. Further, DPC is one of five sub-factors within this group, therefore representing 2% of the overall ratings score.

4. Review of pro-forma debt projections through 2025

Mr. Wisloski reviewed the four different pro forma debt projections which were included in the packet, emphasizing that these were for discussion only and not intended as recommendations. The four projections assumed issuance of $105.05 million in fiscal year 2015, representing all currently authorized but not issued debt, and then:

1. Continued issuance of $79.95 million per year for the ten fiscal years from 2016 through 2025. This results in DPC constraint being exceeded indefinitely, debt as percent of personal income (DPI) of 2.3% in 2020, and an increase in debt service as a percent of revenue (DSPR) from 4.2% to 5.3%.

2. Issuance of $61.75 million annually through 2025. This scenario exceeds the DPC until 2025, the final year of the ten year projection.

3. Issuance of $65.55 million annually through 2025, using a peer group comprised of states with two double A ratings. This exceeds the DPC constraint until 2018, or the end of the next biennium (fiscal years 2016-2017).

4. Issuance of $71 million annually through 2025, using a peer group comprised of states with two double A ratings. This scenario exceeds the DPC constraint until 2020, or until the end of the next two biennial sessions.

Mr. Spaulding suggested that we look at possibly including other indicators.

Mr. Hoffer said that as other states have scale back on their debt issuance, they will also be cutting back on their infrastructure spending. At some point this trend will reverse.

Ms. Pearce commented that the focus should be on how much debt we can reasonably afford.

5. Discussion of economic impact of capital spending

Mr. Carr explained that there are different job responses based on the type of capital spending. Some uses, such as road paving do not lead to the creation of a large number of jobs, while home building leads to many more. Capital spending also produces different results in different locations. There is a high degree of benefit to the areas where the projects are located. He also said when borrowing, the first year or two results in the most beneficial activity. The remaining 18 years of so have a negative economic impact. A recent analysis of the 2012 capital budget showed 650 jobs created in 2012 and 450 in 2013. However, it was followed by a loss of 100-200 jobs per year for the next 18 years.

Mr. Hoffer commented that besides the jobs issue, the assets which are produced are very important to the state.

6. Public Comment and Adjournment

Representative Browning presented a memorandum on Green Mountain Care to the Committee. Ms. Pearce thanked Rep. Browning for her thoughtful memo, which she had sent to the Committee in advance, which reflected her thoughts on what the Committee should consider regarding the publically funded Green Mountain Care program.

Mr. Spaulding remarked that she raised some very appropriate questions, and that the team has on their list of considerations. He said that the plan to move to a universally funded public health care has been brought up on all of the calls with the rating agencies, so they are well aware of the issue.

Ms. Pearce stated that she has a responsibility as CDAAC Chair and State Treasurer to consider the cash flow implications and financing considerations of any program. However, it is not the Treasurer's or the CDAAC Committee's job to create health care policy.

Mr. Coates suggested that this issue be left on the agenda for discussion at future meetings as more information is available.

Rep. Browning asked the Committee to take a proactive approach on this topic. She hoped that the Committee would review this topic and develop their own questions to consider based on her memo.

The Committee agreed to discuss further details as they emerged, as well as a timetable for inclusion in the Committee's analysis.

Ms. Pearce reminded the Committee to recommend other pro forma debt scenarios to consider for the next meeting. Mr. Giroux commented that we should not abandon the current metrics, but perhaps look to adding others. Mr. Spaulding said that we should also find a way to highlight Vermont's economic diversity.

Mr. Valente made a motion to adjourn the meeting, Ms. Dagan seconded, and the Committee unanimously voted to adjourn at 3:59 p.m.