State Debt and Bonding

Vermont State Treasurer's Office

January 2024

VERMONT

Vermont's Overall Debt Strategy

- Vermont has conscientiously and consistently maintained excellent bond ratings, to achieve the lowest possible borrowing costs for Vermont's citizens and taxpayers
- The State has substantially reduced outstanding debt since the 1990s, however there is a need to continue in light of national trend of reductions in bond issuance
- Straightforward debt profile, almost entirely General Obligation (G.O.) debt
    - Transportation Infrastructure Bonds (TIBS) backed by motor fuel assessment issued 2010-2013, fully redeemed in June 2022
- 100% fixed rate bonds
- Level principal produces rapid amortization
- Capital Appropriation changes adopted by the General Assembly have improved the process:
    - Two-year recommendations
    - Use of bond premium used for projects reduces amount of issuance

Debt Management

- Treasurer's Office issues debt in compliance with state statute and federal tax laws, at the lowest possible interest rates, while maintaining State's high credit ratings

- Generally issued as General Obligation (G.O.) bonds – backed by full faith and credit of State which includes pledge of general taxing power for payment, resulting in lower interest rates than other types of debt

- Bonds may be issued to fund proceeds for new capital projects, or to refund older and higher cost State issued bonds

- Bonds issued as serial bonds maturing one to twenty years from issuance, in equal (or diminishing amounts). Interest is paid every six months, principal is paid every twelve months.

- Level principal payments (vs. level principal plus interest payments), so earlier annual payments are larger than later annual payments, and the amount borrowed is repaid sooner

- A major factor in how much debt the State issues is due to the work of the Capital Debt Affordability Advisory Committee (CDAAC)

Bonds: The Treasurer's Office's Statutory Role

- The Treasurer's Office is responsible for managing the State's bonds
  - Title 32: Taxation and Finance, Chapter 13: Debts and Claims

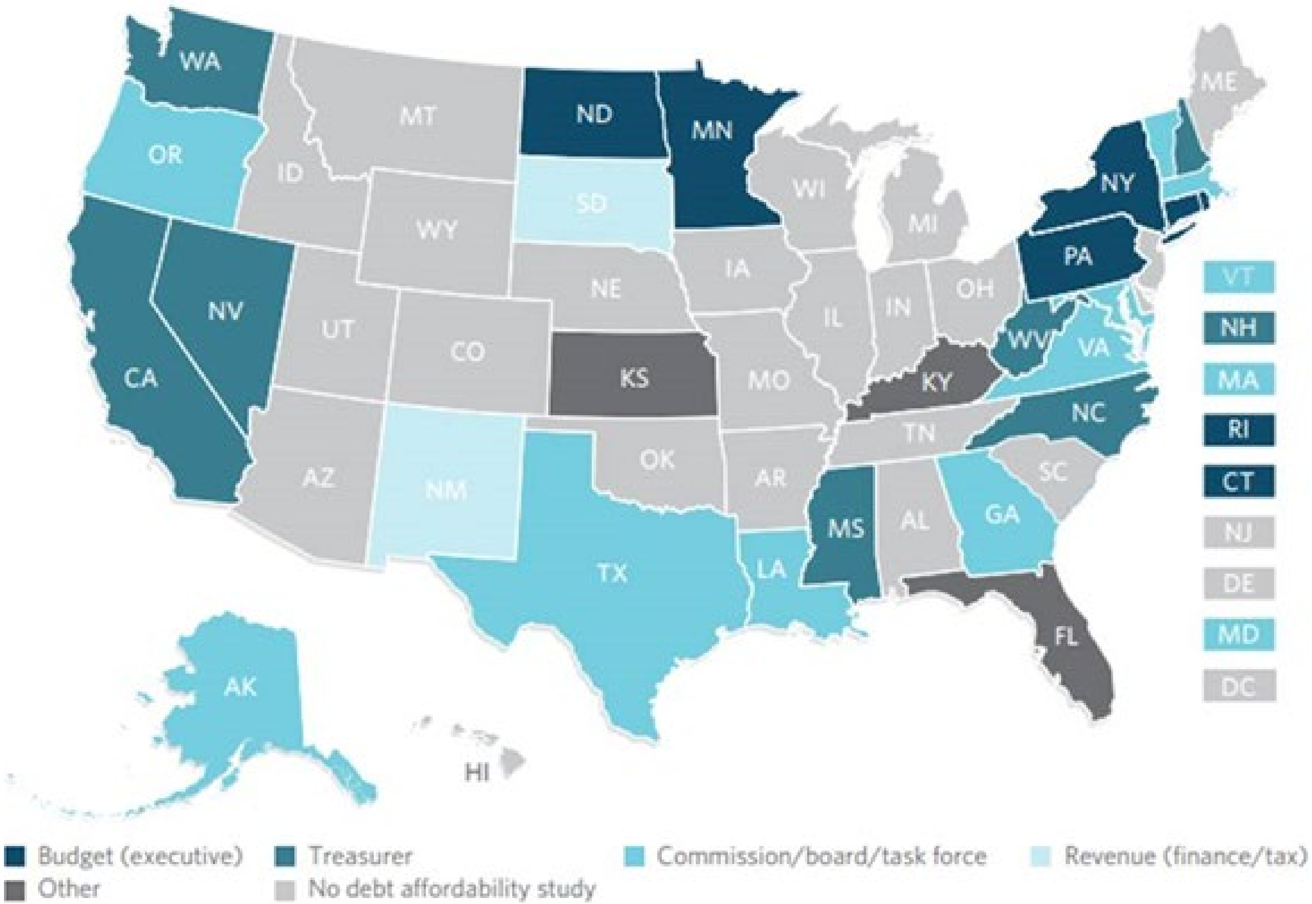
- Duties relating to bonds include:
  - Managing the issuance (sale) and ongoing administration of State bonds
  - Paying principal and interest (debt service) when due
  - Monitoring for refinancing (refunding) opportunities for lower borrowing costs
  - Managing the State's bond ratings (credit scores) and ongoing relationships with the bond rating agencies
  - Contracting for all debt-related State vendors and services (investment bankers, lawyers, financial advisors, economists, rating agencies, custodians and paying agents)
  - Ensuring compliance with all Federal and State laws and regulations
  - Chairing the Capital Debt Affordability Advisory Committee (CDAAC), and delivering the CDAAC's annual debt recommendation and report

- Legislative Committees consider the CDAAC debt recommendation when creating the biennium Capital Bill

Most U.S. States Conduct Debt Affordability Studies

Figure 10

Varying Offices Produce Debt Affordability Studies



Notes: In Kansas, the study is authored by an independent authority. In Kentucky, a legislative office serves as the author. The Florida Division of Bond Finance, within the State Board of Administration, conducts that state's study.[73] Hawaii produced its first state debt affordability study in December 2016, after the data collection for this report had concluded. The state's study is therefore not included in this analysis.

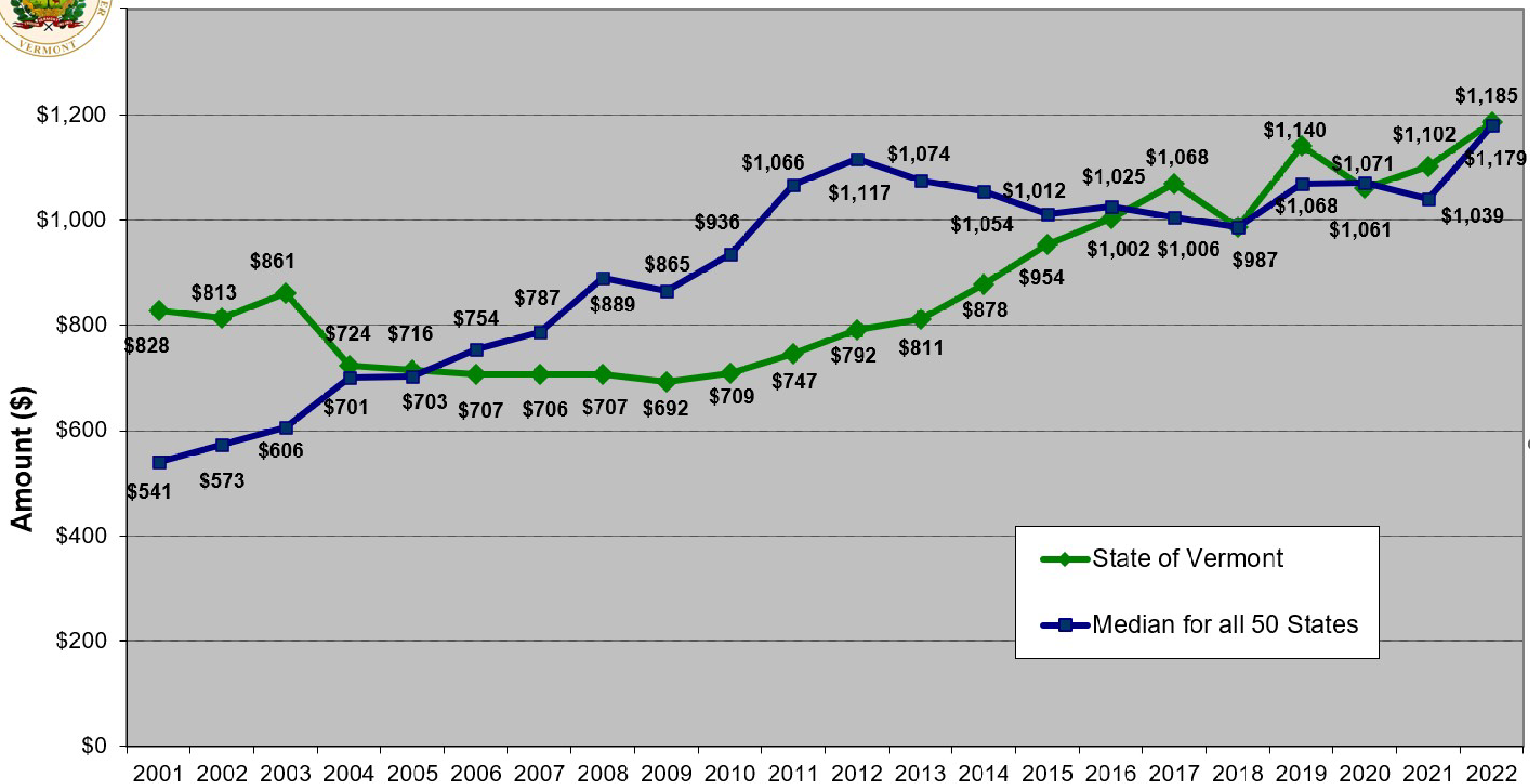
Capital Debt Affordability Advisory Committee (CDAAC)

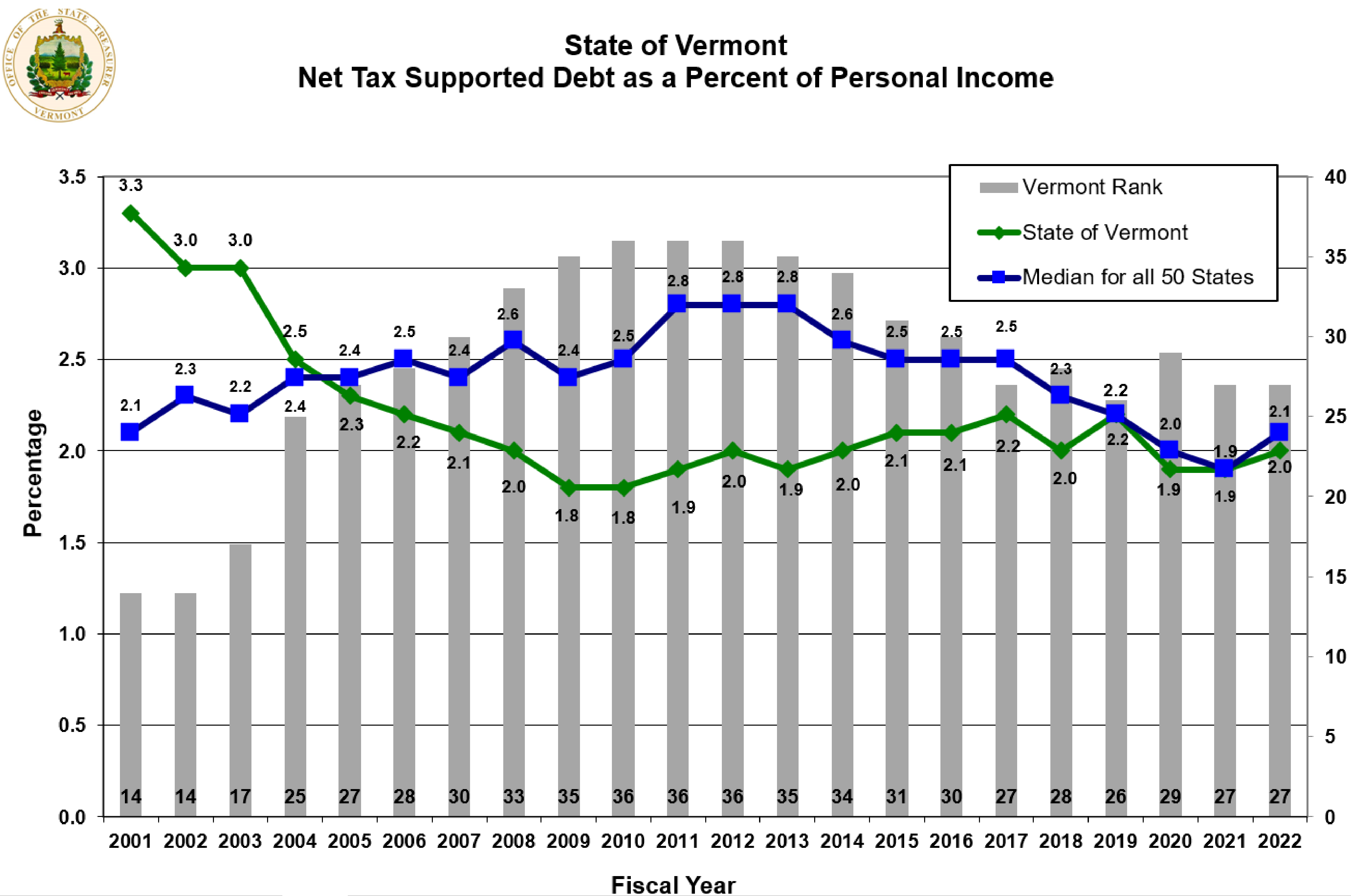
- The CDAAC Committee consists of:
  - State Treasurer (Chair)
  - Secretary of Administration
  - Vermont Municipal Bond Bank representative
  - 2 Governor Appointees
  - Treasurer Appointee
  - State Auditor (non-voting)
  - Legislative Economist of other designee of JFO (non-voting)

Capital Debt Affordability Advisory Committee (CDAAC)

- The CDAAC was created by State statute in 1989
  - Title 32: Debts and Claims, Chapter 13: Debts and Claims, Subchapter 8: Management of State Debt
- Annually reviews affordability of Vermont's net tax-supported debt
  - Benchmark to debt ratios of other Aaa rated states
    - Debt as a Percentage of Personal Income
    - Debt Service as a Percentage of Revenues
    - Debt Per Capita
    - Other long-term liabilities (Pension and OPEB)
- Submits report to Governor and General Assembly with recommended amount of long-term debt can be prudently issued for next biennium (two-year recommendation)
- Recommendation is advisory; in practice, Governor and General Assembly have always adopted in the biennial Capital Bill and Capital Bill Adjustment
- Reviews amount and structure of bonds, notes, and other obligations for which the State has a contingent liability or moral obligation
- The CDAAC structure is considered a good governance practice by the bond rating agencies

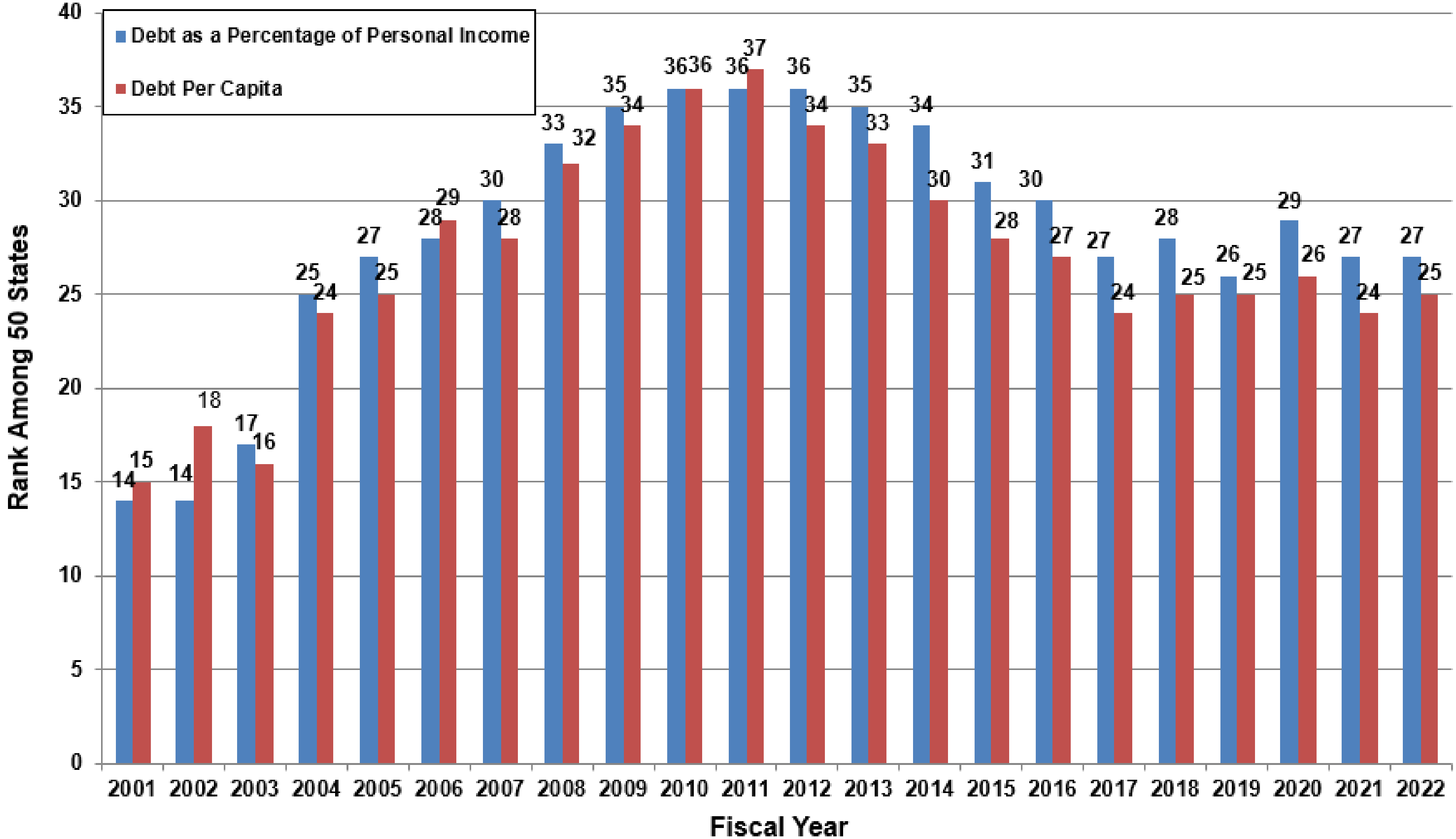
State of Vermont
Net Tax Supported Debt Per Capita





State of Vermont
Net Tax Supported Debt as a Percent of Personal Income
Vermont Rank
State of Vermont
Median for all 50 States
Percentage
Fiscal Year
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
14 14 17 25 27 28 30 33 35 36 36 36 35 34 31 30 27 28 26 29 27 27

State of Vermont
Historical State Debt Rankings



Vermont Bond Ratings

- The major credit rating agencies are:
  - Moody's Investors Service
  - S&P Global Ratings
  - Fitch Ratings
- In August 2023 Moody's affirmed the State's rating at Aa1 and Fitch and S&P affirmed the rating at AA+, all with Stable outlooks. These are all 2nd highest rating assigned.
- Vermont (along with Massachusetts) has the highest bond ratings of the New England states resulting in the lowest interest rates (cheapest borrowing cost)

BOND RATINGS CHART				
	Moody's	S&P	Fitch	Meaning
Investment Grade	Aaa	AAA	AAA	High quality; minimal risk of default
	Aa1	AA+	AA+	High quality; very low credit risk
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper-medium grade; low credit risk but somewhat specific susceptible to adverse factors
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Medium grade; moderate credit risk; may have some

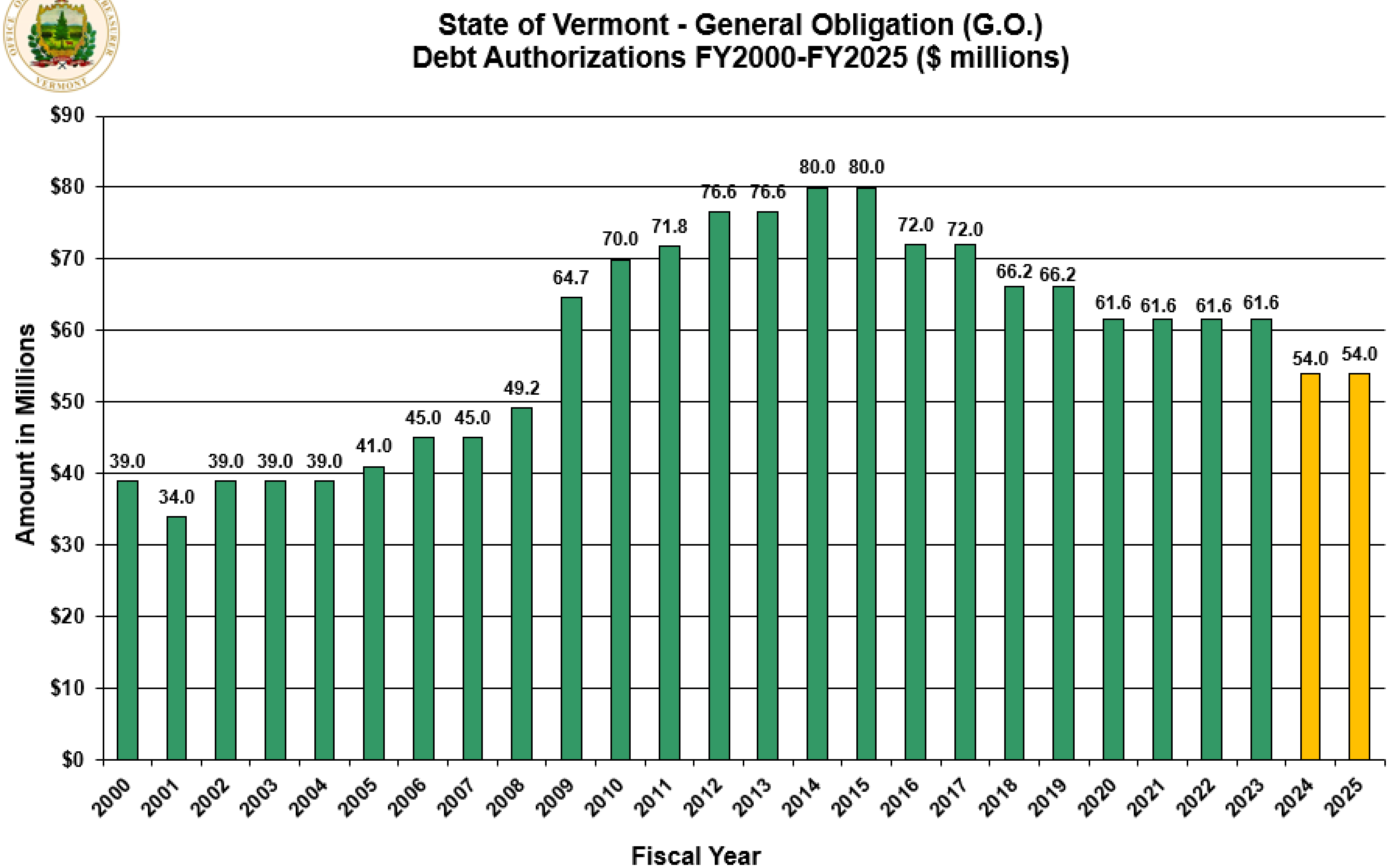
State	Moody's	S&P	Fitch
Vermont	Aa1	AA+	AA+
Connecticut	Aa3	AA-	AA-
Maine	Aa2	AA	AA
Massachusetts	Aa1	AA+	AA+
New Hampshire	Aa1	AA	AA+
Rhode Island	Aa2	AA	AA

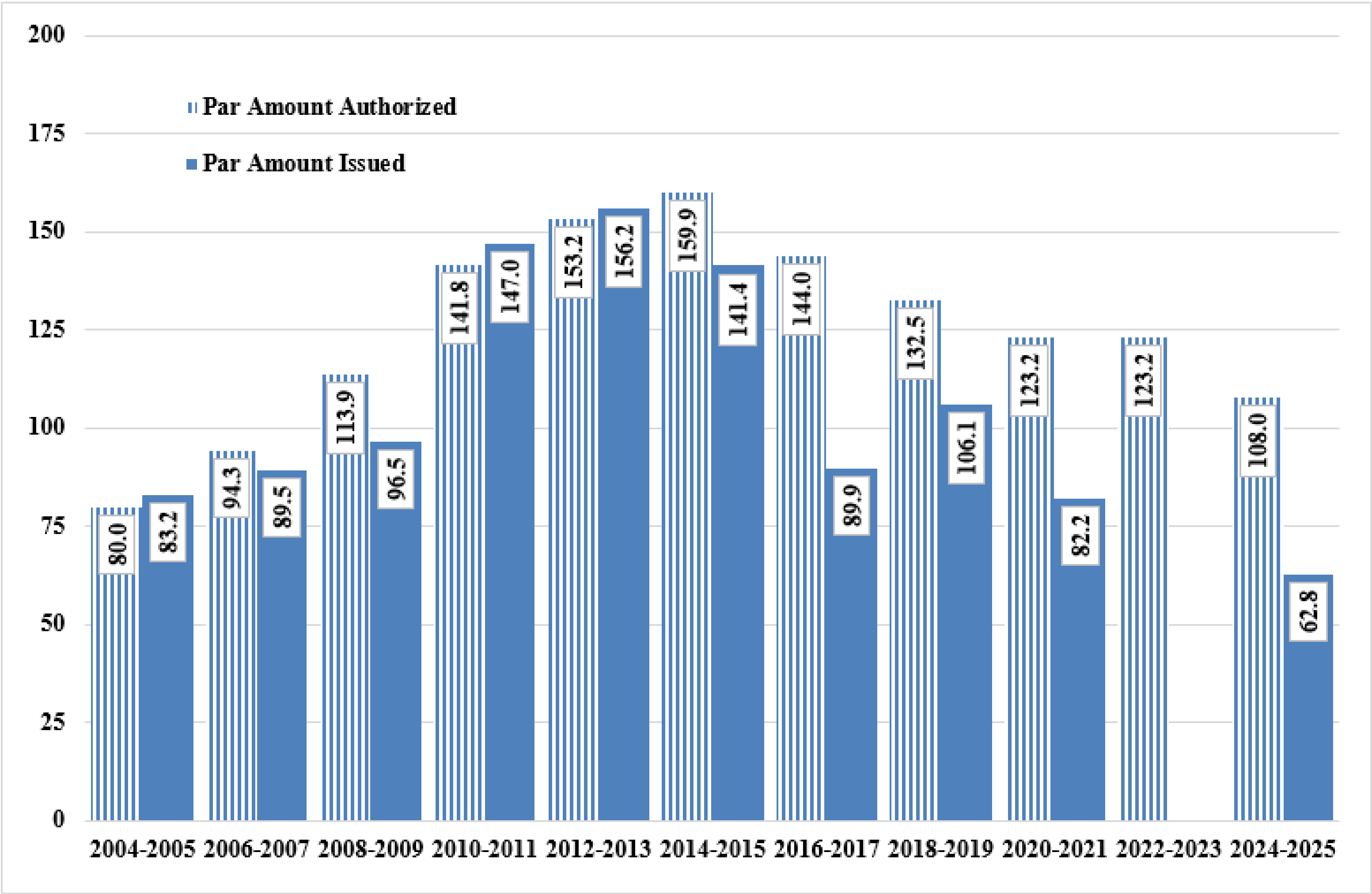
CDAAC Recommendations and Comments

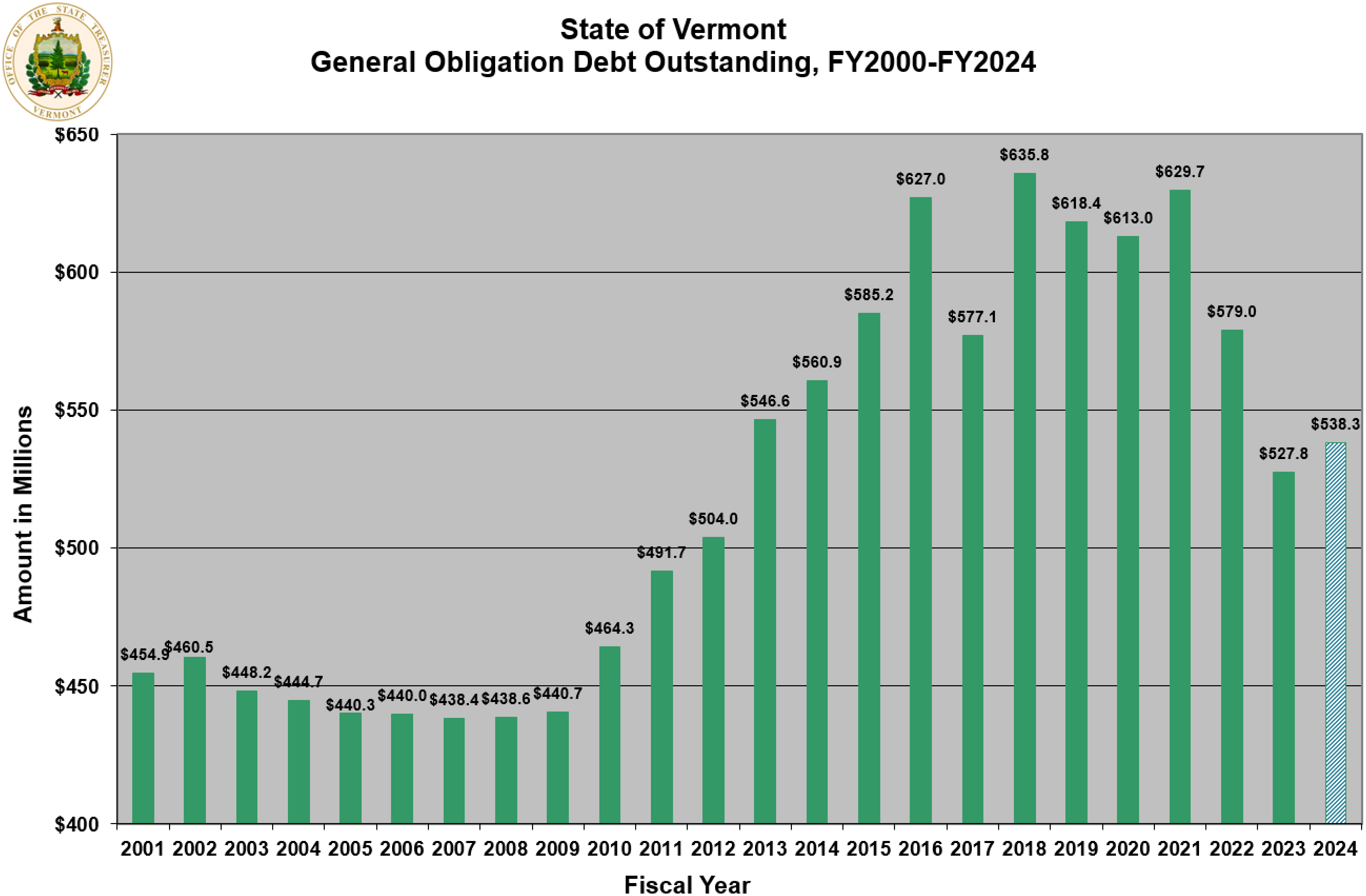
- More limited debt issuance by other states, including our peer Triple-A rated states, has resulted in a weakening of Vermont's comparative debt rankings

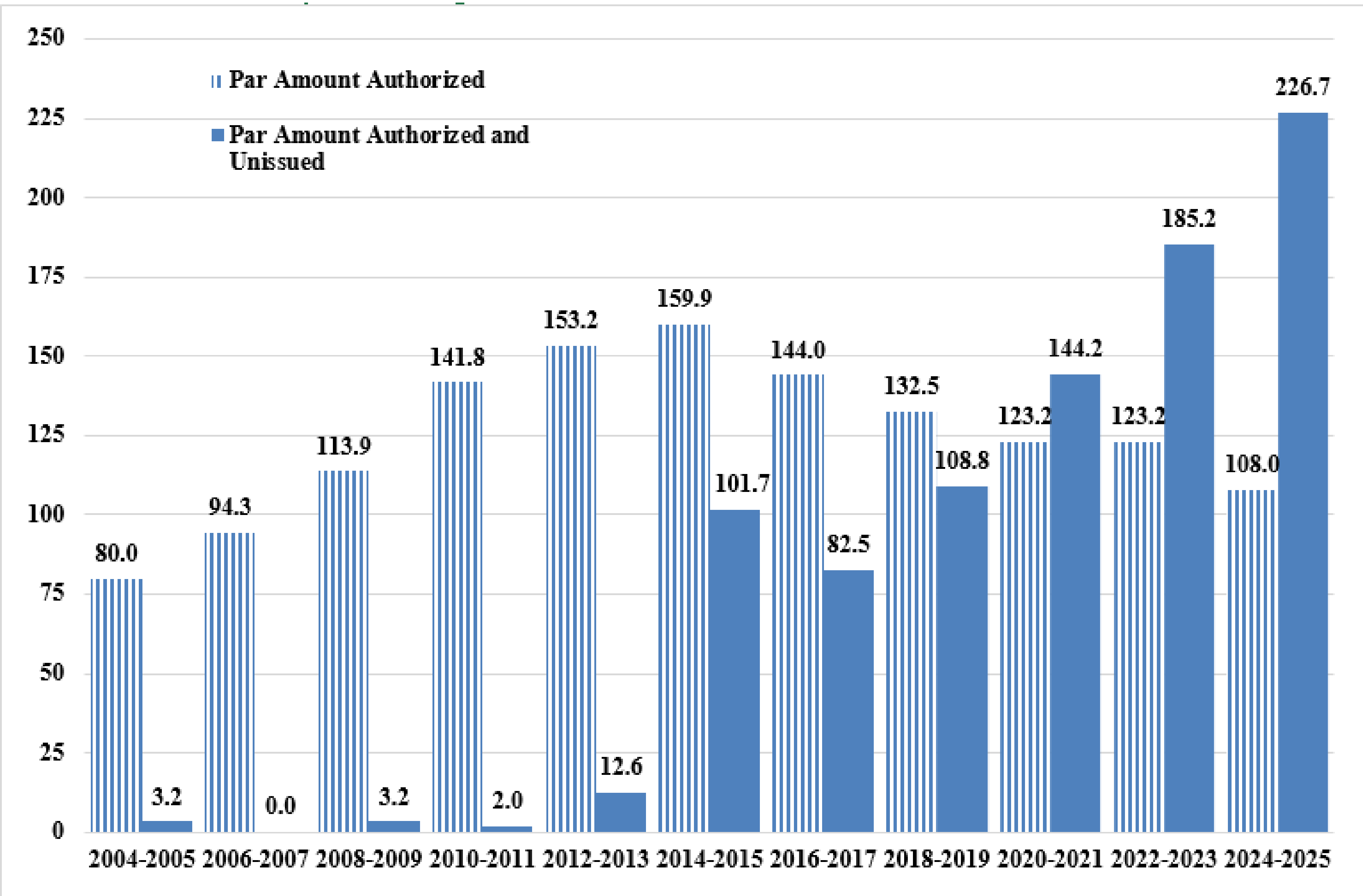
- This is the second year of the 2024-2025 biennium and the Committee has a two-year debt recommendation of $108,000,000

- This represents a reduction of 12% from the prior biennium and 37% since the 2014-15 recommendation


State of Vermont - General Obligation (G.O.)
Debt Authorizations FY2000-FY2025 ($ millions)
Amount in Millions
Fiscal Year
$0
$10
$20
$30
$40
$50
$60
$70
$80
$90
39.0
34.0
39.0
39.0
39.0
41.0
45.0
45.0
49.2
64.7
70.0
71.8
76.6
76.6
80.0
80.0
72.0
72.0
66.2
66.2
61.6
61.6
61.6
61.6
54.0
54.0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025


200
175
150
125
100
75
50
25
0
Par Amount Authorized
Par Amount Issued
80.0
83.2
94.3
89.5
113.9
96.5
141.8
147.0
153.2
156.2
159.9
141.4
144.0
89.9
132.5
106.1
123.2
82.2
123.2
108.0
62.8
2004-2005
2006-2007
2008-2009
2010-2011
2012-2013
2014-2015
2016-2017
2018-2019
2020-2021
2022-2023
2024-2025


State of Vermont
General Obligation Debt Outstanding, FY2000-FY2024
Amount in Millions
$650
$600
$550
$500
$450
$400
$454.9
$460.5
$448.2
$444.7
$440.3
$440.0
$438.4
$438.6
$440.7
$464.3
$491.7
$504.0
$546.6
$560.9
$585.2
$627.0
$577.1
$635.8
$618.4
$613.0
$629.7
$579.0
$527.8
$538.3
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024
Fiscal Year



250
225
200
175
150
125
100
75
50
25
0
Par Amount Authorized
Par Amount Authorized and Unissued
80.0
3.2
94.3
0.0
113.9
3.2
141.8
2.0
153.2
12.6
159.9
101.7
144.0
82.5
132.5
108.8
123.2
144.2
123.2
185.2
108.0
226.7
2004-2005
2006-2007
2008-2009
2010-2011
2012-2013
2014-2015
2016-2017
2018-2019
2020-2021
2022-2023
2024-2025

Vermont's Overall Debt Strategy

- Vermont has conscientiously and consistently maintained excellent bond ratings, to achieve the lowest possible borrowing costs for Vermont's citizens and taxpayers
- The State has substantially reduced outstanding debt since the 1990s, however there was a need to increase capital investments following Tropical Storm Irene, and economic growth supported more debt. Following the increase in debt, economic growth slowed and increasing pensions and OPEB liabilities resulted in reduced debt issuance recommendations.
- Straightforward debt profile, almost entirely General Obligation (G.O.) debt
  - Transportation Infrastructure Bonds (TIBS) backed by motor fuel assessment issued 2010-2013, fully redeemed in June 2022
- 100% fixed rate bonds
- Level principal produces rapid amortization
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