School Construction Financing

House Committee on Ways and Means
January 17, 2023

Overview

- State Debt Management
- CDAAC Recommendation
- Debt Metrics
- School Construction Financing
- Rhode Island Case Study

State Debt Management: What are Bonds?

- Same basic concept as a home mortgage:
  - A loan for a large purchase, that is paid back over time

- Vermont's bonds also have fixed interest rates like a typical mortgage

- Some ways Vermont's bonds <u>differ</u> from a mortgage:
  - Usually repaid over 20 years (vs. 15 or 30 years)
  - Payments made every 6 months for interest, and 12 months for principal (vs. monthly principal plus interest)
  - Level <u>principal</u> payments (vs. level principal plus interest payments), so earlier payments are larger than later payments, and the amount borrowed is repaid <u>sooner</u>
  - Can only be refinanced after about 10 years (vs. any time)
  - Vermont guarantees repayment from General Fund (vs. home pledged as collateral that can be foreclosed upon)
  - Each bond issue is actually a package of loans from one to 20 years long
  - Large number of lenders (i.e., bond purchasers) such as investment banks, mutual funds, and even Vermont citizens (vs. a single local bank or credit union)

State Debt Management: Treasurer'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

State Debt Management: 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

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
- Recommends annual debt issuance to Governor and General Assembly
- 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

CDAAC Recommendations and Comments

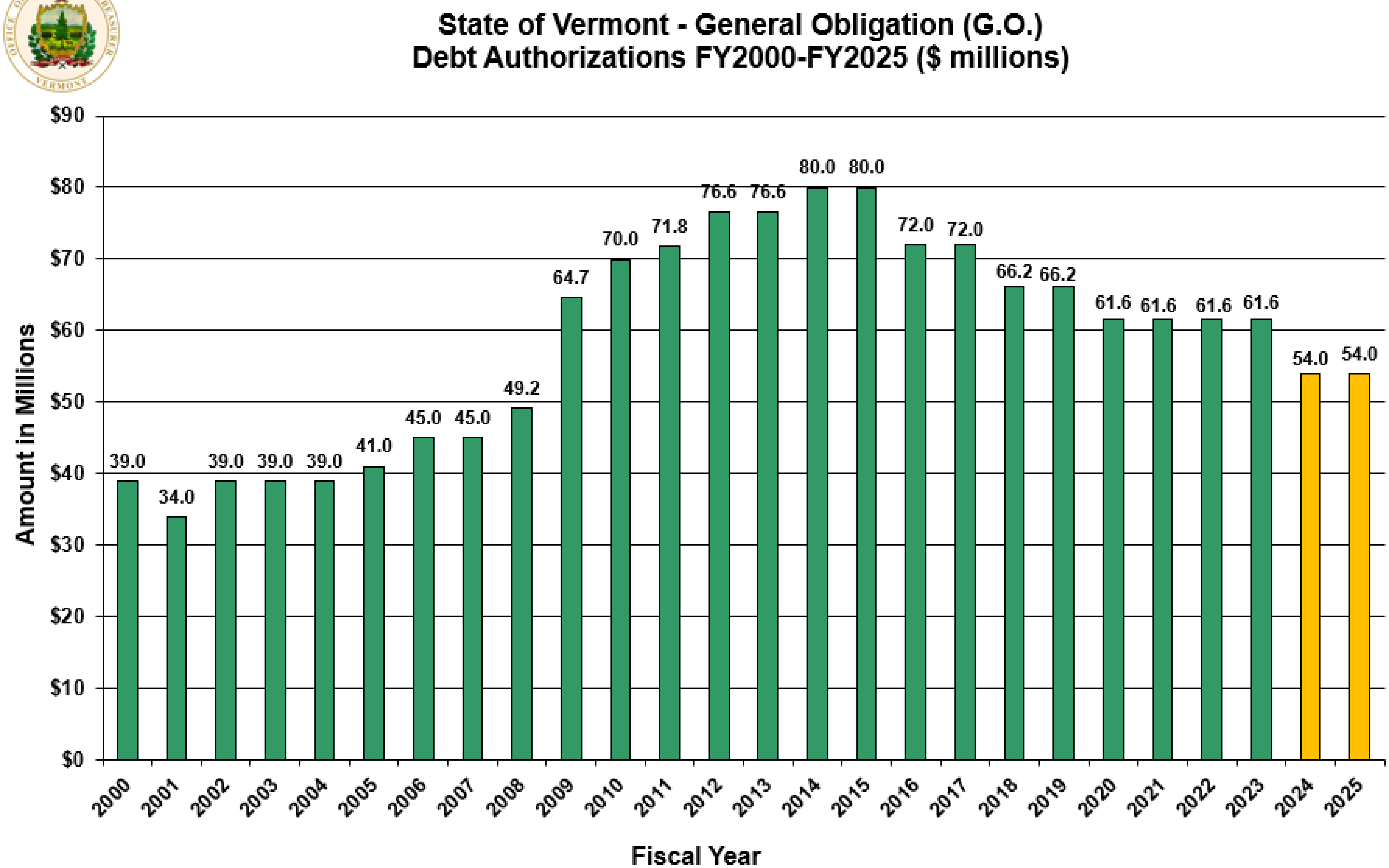
- More limited debt issuance by other states, including our peer Triple-A rated states, has resulted in a weakening of Vermont's debt ratio comparative ratings

- This is the first 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

- Need to remain disciplined in making actuarially determined employer contributions (ADEC)

- Continued support for reserve increases is also important: The rating agencies are recognizing the need for higher levels of reserves



State of Vermont - General Obligation (G.O.)
Debt Authorizations FY2000-FY2025 ($ millions)
Amount in Millions
$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
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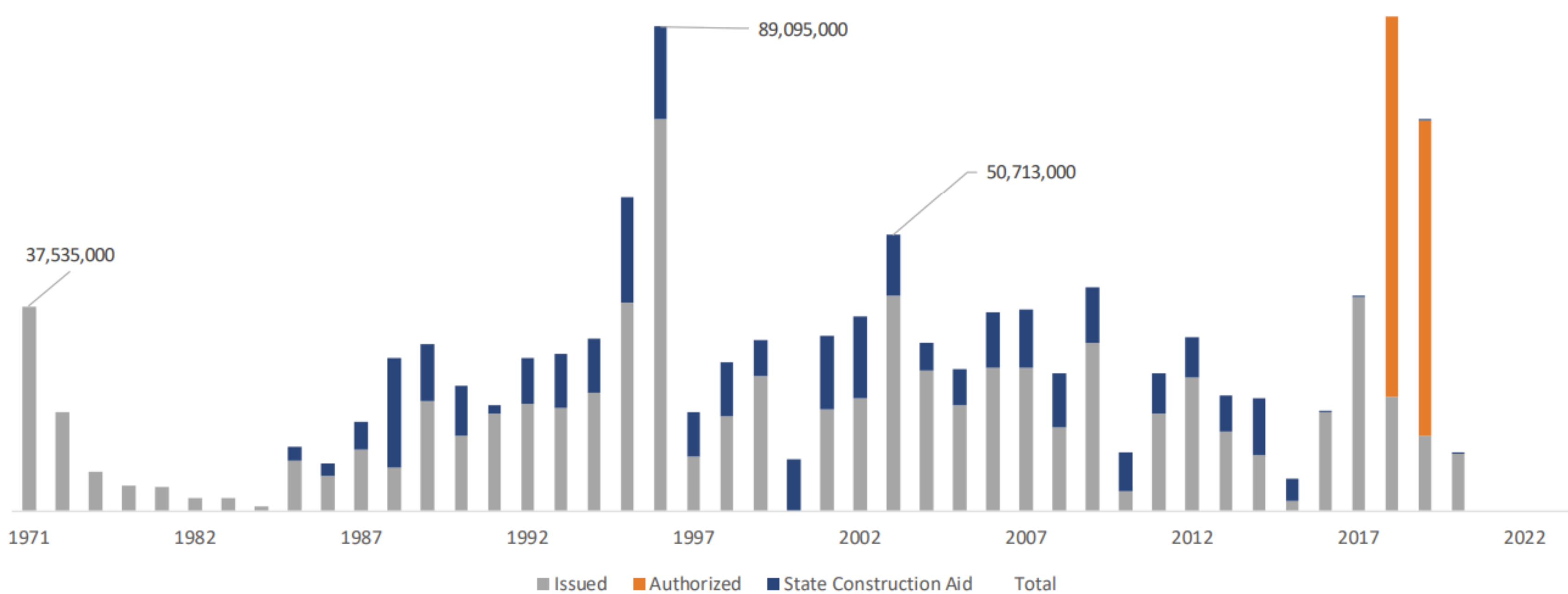
2025
Fiscal Year

School Construction Financing

- 2007, Vermont put a moratorium on state aid for school building construction – committed projects in pipeline at that time took an additional 5 years to pay off
- Estimated need is $500-600 million (old number from 2020 testimony in House Education Committee – prior to PCB testing)
- Most Vermont schools will utilize the Vermont Municipal Bond Bank (VMBB) for long-term capital. See chart below from VMBB testimony on H.209 of 2020.

NOMINAL VT SCHOOL CONSTRUCTION SPENDING - 1971 TO PRESENT



Sources: VT Bond Bank; JLFO

- Unadjusted dollars
- Exclusively reflects Bond Bank data for issuance activity (i.e. loans through private banks or other sources not part of dataset)
- Bond Bank made $784.61 million in loans to an estimated 543 projects over past 50 years

Rhode Island Case Study

- Timeline:
  - 2011 Rhode Island places moratorium on state support for school construction.

  - 2017 – Rhode Island Dept. of Education releases “Schoolhouses” report detailing 50,000 deficiencies across 306 public school campuses. Deficiencies related to both health/safety and programmatic.

  - September 2017 – Treasurer Seth Magaziner co-chairs the Rhode Island School Building Task Force with the Rhode Island Secretary of Education.

  - Task Force puts forth 3 part plan for upgrading public school buildings across the State

    1) Incentive plan – State would temporarily, but substantially, increase level of financial support for projects meeting certain criteria
    2) New policies to control construction costs
    3) Stronger requirements for school districts to provide adequate maintenance and upkeep of facilities going forward

  - 2018 – voters approved plan with 76.7% of vote

Rhode Island Case Study

- $2.2 billion in funding for 202 school projects in 4 ½ years. Combination of State G.O. bonds (recommended $500 million over 10 years) and other funding sources including municipal bonds.
- $250 million bond approved in 2018; $300 million bond is currently before the Rhode Island Legislature.
- In addition to the surge of G.O. funding up-front, task force recommended substantial increase in state spending on school repairs ($80 million per year).
- At least 36,000 jobs created since 2018.
- Rhode Island had previously used state-level bonding to fund Pre K-12 facilities, but had not had a Pre K-12 bonding proposal to referendum since 1994.
- Link to full Rhode Island Task Force Report (2018) and Moving Forward: A Progress Report on Rhode Island School Construction (2021).