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**TO:** Governor Phil Scott
Kristin Clouser, Secretary of Administration
Jill Krowinski, Speaker of the House of Representatives
Phil Baruth, Senate President Pro Tempore
Alice Emmons, Chair, House Committee on Corrections and Institutions
Russ Ingalls, Chair, Senate Committee on Institutions
Catherine Benham, Joint Fiscal Office

**FROM:** Mike Pieciak, Vermont State Treasurer

**DATE:** September 29, 2023

**RE:** **Interim** Capital Debt Affordability Advisory Committee Report for 2023

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Pursuant to 32 V.S.A. §1001, I am submitting a report on behalf of the Capital Debt Affordability Advisory Committee ("Committee" or "CDAAC").

**<u>Biennium Recommendation</u>**

For the FY2024-25 biennium, CDAAC recommended a debt authorization of $108,000,000, which amount was enacted by the Governor and General Assembly in Act No. 69 of 2023, i.e., the FY2024-25 Capital Act. The Committee also stated in its 2022 report:

> *"…given the level of volatility and uncertainty, the Committee also discussed the possibility of increasing the second year of the biennial recommendation in next year's 2023 CDAAC Report."*

The CDAAC is recommending maintaining its current $108,000,000 biennium recommendation. The committee finds that most of the same economic, workforce, and inflationary conditions persist in the current environment, and that those conditions militate against an increase in the recommendation.

**<u>Cash Fund</u>**

The General Assembly further developed CDAAC's recommended Pay-Go model by amending the Capital Expenditure Cash Fund created in 2022 (32 V.S.A. § 1001b) as the Cash Fund for Capital and Essential Investments. Adopting a recommendation of the Commissioner of Finance and Management's report, the General Assembly also identified as a funding source of four percent (4%) or less of the last completed fiscal year's General Fund appropriations, less the amount necessary to fund the State's general obligation debt service in the year the transfer is being made. CDAAC also acknowledges the amendment to 32 V.S.A. § 1001 regarding its debt recommendation that *"The Committee's estimate shall not take into consideration the balance remaining at the end of each fiscal year in the subaccounts of the Cash Fund for Capital and Essential Investments, established pursuant to section 1001b of this title."*

**Bond Redemption**

With respect to the $20,000,000 identified for redeeming general obligation bonds prior to maturity, the Treasurer's Office anticipates completing the associated redemption in the current fiscal year. The Treasurer's Office also acknowledges that debt service savings from this redemption, and any reductions to debt service generally, automatically will be captured in the above-referenced mechanism for transfers to the Cash Fund for Capital and Essential Investments under § 1001b.

**Full Analysis**

It should be noted that the delay in publication of the Moody's Investors Service debt and pension medians prevented a full analysis found in a typical CDAAC report. The Moody's debt and pension medians report is a critical element in developing state median and peer group analysis, and the delay in availability of the Moody's report until this week means that the Committee is unable to produce current versions of the customary CDAAC projection models and the full report.

CDAAC and the State traditionally have employed conservative debt load guidelines that are consistent with the metrics that the rating agencies historically have used to measure debt burden. These guidelines include 10-year projections of:

- Debt Per Capita;
- Debt as a Percentage of Personal Income; and
- Debt Service as a Percentage of Revenues.

Additionally, CDAAC has observed that the traditional three debt guidelines have begun to diverge from one another, with the State regularly exceeding its Debt Per Capita benchmark, but complying with both its Debt as a Percentage of Personal Income and Debt Service as a Percentage of Revenue benchmarks. However, the benchmarks as currently structured do not account for the State's pension and OPEB liabilities, which collectively are significantly larger than the amount of the State's net tax-supported debt outstanding. Because the rating agencies increasingly are taking a holistic approach that evaluates a state's overall liabilities when determining ratings, CDAAC believes that its metrics need to be adjusted correspondingly; [should any such adjustments require amendments to CDAAC's existing statutory charge, CDAAC will propose draft legislation for consideration]. CDAAC also recognizes that this is the second year Moody's report has been delayed, and should this later availability continue, the Committee may need to recommend a later delivery date for its report that still meets the Governor's and General Assembly's required timeline with respect to development of the Capital Bill.

The Committee plans to continue its work over the next several weeks and to reconvene toward the end of October to discuss further and set a delivery date of the full analysis.