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STATE OF VERMONT OFFICE
OF THE STATE TREASURER

MICHAEL S. PIECIAK
STATE TREASURER

May 3rd, 2024

Dear Chair Cummings and Members of the Senate Committee on Finance,

Thank you for the invitation to testify in your committee this afternoon on the question of using $20 million of Education Fund reserves to buy down property tax rates in FY2025.

I share the concern about a 15% property tax increase; however, there are fundamental risks with using the Education Fund reserve in a one-time fashion to buy down property tax rates.

Using one-time reserve funds to deal with on-going cost pressures is concerning to the rating agencies. The proposal to use reserve funds carries risks including increasing borrowing costs for the state and other entities that rely on the state's credit rating.

Put another way - the short term, temporary relief of using one-time reserves carries the potential for a significant long term price tag.

Use of One-Time Buy Downs

A reserve fund is, by definition, a one-time revenue source. Money taken out of the fund during one fiscal year will not be available to balance the following year's books.

Therefore, using these savings to address a budget gap caused by a cyclical economic downturn—by definition, temporary—is sensible. However, using them to cover a shortfall caused by ongoing structural imbalances in a budget— specifically, the difference between ongoing revenue and spending commitments—only delays fundamental policy decisions about taxes and spending.

Use of Reserves

Given the right conditions, using reserves can be viewed favorably by the rating agencies. All three of the major rating agencies have indicated that withdrawals made to supplement state budgets when poor economic performance is responsible for drops in ongoing revenue collections can be viewed favorably.

Withdrawals should be based on economic volatility, revenue volatility, or both. The key distinction is that, unlike conditions based on a budget gap or forecast error, conditions that consider shifts in economic or revenue performance can signal whether conditions are right to use the reserve fund.

However, neither economic or revenue volatility currently exists in Vermont.

Reputation of Strong Fiscal Management

Using a one-time reserve fund to cover expenses caused by on-going cost pressures would be particularly concerning given Vermont's hard earned fiscally responsible reputation. The State has kept its strong ratings due in large part to its financial management, which has outweighed its slower economic growth, demographic challenges, and high pension liabilities.

Moving forward on a plan that would undercut Vermont's fiscal reputation would have an outsized impact on how the rating agencies view our state.

Conclusion: Cost and Benefit

It appears clear to me that the costs of using the education reserves clearly outweighs the benefits.

- **The cost** of a rating downgrade could be many millions of dollars in increased borrowing expenses every year we issue debt for the indefinite future. We generally issue new debt on an annual basis. Other entities that use the State's moral obligation, including the Vermont Municipal Bond Bank, the Vermont Housing Finance Agency, and the Vermont Economic Development Authority, would also experience increased borrowing costs in the event of a downgrade.

- **The benefit** of using the reserves would result in a temporary, short-term property tax reduction of approximately 2% for FY2025. This 2% decrease would eventually be paid for in future fiscal years as would the additional cost of repaying the $20 million taken from the Education Fund.

Sincerely,

Mike Pieciak
State Treasurer