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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Governor Peter Shumlin
Shap Smith, Speaker of the House of Representatives
John Campbell, Senate President Pro Tempore
Alice Emmons, Chair, House Committee on Corrections and Institutions
Peg Flory, Chair, Senate Committee on Institutions
Stephen Klein and Members, Joint Fiscal Committee

FROM: Beth Pearce, State Treasurer Beth

DATE: September 30, 2015

RE: Capital Debt Affordability Advisory Committee Report for 2015

Pursuant to 32 V.S.A. §1001, I am pleased to deliver on behalf of the Capital Debt Affordability Advisory Committee ("Committee" or "CDAAC") its "Recommended Annual Net Tax-Supported Debt Authorization" Report for 2015 ("Report").

This year is the second year of the FY2016-17 biennium, and the Committee is reaffirming its 2-year recommendation of an amount not to exceed $144,000,000, as was proposed by the Administration and adopted by the General Assembly in the 2015 Capital Bill.

As noted in the Report, debt issuance among Vermont's peer triple-A rated states and the fifty states generally has continued to decline, and for the first time in almost three decades, total debt outstanding has declined as well. This has resulted in a noticeable impact on Vermont's debt ratio rankings compared to other states, notwithstanding a need to consider the impact of capital spending on the economic conditions of the State. The Committee also notes that Vermont's projected debt issuance of $72 million per year exceeds scheduled debt retirements, meaning that the State's overall debt outstanding continues to rise. As a result, the Committee may potentially see pressure to consider further reductions in their recommendation for bond issuance in the next biennium.

On a positive note, pursuant to statutory changes made in 2012, the 2015 Capital Bill includes $11.559 million of additional debt authorization based upon the use of bond premium from the State's November 2014 General Obligation bond sale, for total biennium bond authorization of $155.559 million.

On a further positive note, in late September the State received a reaffirmation of its bond ratings, with stable outlooks, of Aaa (highest) from Moody's Investors Service, AAA (highest) from Fitch Ratings, and AA+ (second highest) from Standard & Poor's.

The rating agencies continue to express concern with Vermont's aging demographic profile and the long-term implications for its economy, as well as Vermont's larger-than-average unfunded pension and other post-employment benefits ("OPEB") liabilities. However, the agencies also uniformly praise Vermont's strong financial management, regular consensus revenue forecasting, funding the Annual Actuarially Required Pension Contributions, fiscal discipline and proactive steps to address budget gaps, and conservative debt management and affordability planning.

For the preservation of Vermont's excellent credit ratings, and all the attendant benefits those ratings provide, the Committee members and I urge the Governor and General assembly continue their unbroken 25-year record of adopting the Committee's debt recommendation. In addition, the most important steps the Governor and General Assembly can take to preserve Vermont's excellent ratings are to:

(1) fund the full annual required contributions ("ARCs") for the State Employees' and State Teachers' pension funds;

(2) maintain the full 5% statutory budget stabilization reserves for the General Fund, Education Fund and Transportation Fund; and

(3) fund the General Fund contribution to the newly-created Retired Teachers' Health and Medical Benefits Fund.

Finally, as I recommended last year, the State should try to build the General Fund Balance Reserve (i.e., "rainy day" fund) to 3% of the General Fund incrementally and over time, with the eventual goal of maintaining combined General Fund budget stabilization and "rainy day" reserves of 8%.

I remain convinced that preserving Vermont's triple-A credit ratings and excellent reputation with the financial markets is the best strategy to ensure market access, to maintain low borrowing costs, and ultimately to protect Vermont's taxpayers.

Maintaining the discipline required to keep our ratings can be very difficult, but it is within our collective control.

Please feel free to contact me with any questions.