ELIZABETH A. PEARCE
STATE TREASURER

RETIREMENT DIVISION
TEL: (802) 828-2305
FAX: (802) 828-5182

UNCLAIMED PROPERTY DIVISION
TEL: (802) 828-2407

ACCOUNTING DIVISION
TEL: (802) 828-2301
FAX: (802) 828-2884

STATE OF VERMONT
OFFICE OF THE STATE TREASURER

STATEMENT OF TREASURER BETH PEARCE

June 19, 2018

The Treasurer's Office maintains its position that the current impasse and threat of a shutdown presents an undue risk to the State's financial reputation and its credit rating.

Over the last few days, there have been questions about how the ratings agencies view a budget impasse and government shutdown. In response, I would like to provide some additional context to the issue.

As we address the current budget impasse, we need to put the risks to our credit rating into the context of our strengths and weaknesses. As I noted in my May 18, 2018 letter to the Governor and Legislative leadership:

> It is no secret that the State faces challenges, both in demographics and in slower than expected economic growth. Our margin for error has narrowed. Because of these challenges, it is perhaps more important than ever that we focus on our historical strengths—fiscal discipline, consensus forecasting, and collaborative budgeting.

As matter of course, state treasuries employ financial advisors to assess their credit risks, work with the rating agencies on our behalf, and assist us in the bond market. Our financial advisor, Public Resources Advisory Group or PRAG, has been and continues to be one of the top three nationally ranked financial advisory firms. I would like to provide the full statement from PRAG on this topic, which I believe accurately summarizes the risks we face.

> You have asked us about the credit ratings implication for State of Vermont from a government shutdown due to the State's inability to pass a budget. As you know, it is very uncommon for a triple-A rated state not pass a budget on time and enter the fiscal year with a full or partial shutdown of state governmental activities. We would say first, that over-time more is expected from triple-A states. Second, all three major rating agencies base their ratings on many general factors – generally the state's economy, governance, operating budgetary performance, and long-term liabilities. Rating agencies analyze a variety of these

> factors when assigning a rating. There are some things that are in a state's control that affect its rating and somethings that the state does not immediately control. A state can control: (i) passing a budget, (ii) passing a structurally sound budget, (iii) paying down its unfunded liabilities, (iv) managing its spending and building its reserves. Vermont cannot control: (i) its older population, (ii) slower or no growth in total workforce , (ii) slower economic and revenue growth. Unfortunately, the State's current position and the risk of a Vermont government shutdown is inconsistent with a State's core rating strengths and things that it can control -- its reputation for consensus decision making, conservative financial management, which has included passing structurally balanced budgets, paying down pension liabilities, and building its reserves. It is important to recognize that the State's credit challenges are not in its immediate control – the economy, revenue performance and the State's demographic challenges. For these reasons we believe that that moving away from the State's conservative financial management approach and having a government shutdown presents the State with long-term risk to its ratings.

This is not the time to let go of our strengths—conservative and proactive financial management. At a time when there is volatility in Washington and a recognition that economic cycles are just that, cycles with periods of upturn but also downturns for which we must prepare, we need to have a long-term look at factors that affect Vermont and its citizens.

This is now the second year in a row that we have had a budget standoff well into June. Last year's budget issues caused us to delay a planned bond issuance, and we postponed formal discussions with the ratings agencies as a result. This year's impasse now comes with a threat of a shutdown.

Taken in whole, the current impasse and threat of a shutdown, particularly given the lack of contingency planning around a potential shutdown, undermines our historic strengths. The rating agencies are following the current budget situation very closely, as evidenced by the fact that one of which has requested a briefing following the Special Session. I urge all parties to come to a resolution and get it done.