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1/6/2017

OVERVIEW OF BONDING

Debt Financing for Capital Projects

- **Capital Expenditures:** The State of Vermont (the "**State**") may raise money to finance a capital expenditure by borrowing money against future revenues by issuing a bond.
    - In Vermont, a capital expense is "restricted to tangible capital investments, but may include the planning and design directly associated with a tangible capital investment."
    - These include expenses such as construction and renovation of state office buildings and state recreational, cultural, health, correctional and educational facilities, and aid to municipalities for education and environmental conservation projects.
- **Debt Issuance:** When a state issues a debt instrument, such as a bond, the individual or investor that buys this debt (a "**bondholder**") is essentially lending money to the state for the capital project. In return for the money, the individual or investor expects that the state will repay the amount of money borrowed, along with interest, as set out in a fixed payment schedule.
- **Interest on State bonds:** Interest payments on State bonds are generally exempt from both federal and State income tax (within parameters set by the Internal Revenue Service). As a result, investors in State and other municipal bonds are willing to accept a lower interest rate than they would receive for taxable bonds of comparable credit quality, such as corporate bonds. This implicit federal subsidy considerably lowers the interest rate on State bonds, and saves the State money in debt service payments.
- **Repayment terms:** State bonds are generally long-term and are repaid, or mature, anywhere from one to 40 years from the date they are issued. In Vermont, most bond issues must be repaid within 20 years, with the exception of transportation infrastructure bonds, which have a 30 year repayment term.

Types of Bonds

- **General Obligation Bonds:** General obligation bonds are secured by a pledge of the full faith and credit of the state, meaning that the state is guaranteeing repayment of the bond. Typically a bondholder of general obligation bonds has the right to compel a tax levy or appropriation to repay the debt upon a default. The State does not require a public vote for bonds issued to finance capital budget requests.
    - The State may also issue general obligation bonds for refunding purposes. A refunding would be used to pay off outstanding bonds and refinance the remaining debt at a lower interest rate.
- **Revenue Bonds:** Revenue bonds are not secured by a pledge of the full faith and credit of the state but are instead designed to be self-supporting. Revenue bonds are backed by specific dedicated revenues such as user fees, grants, taxes or other specifically ear marked receipts. These bonds are usually issued without prior voter approval because they are not backed by a guarantee of the state.
- **Transportation Infrastructure Bonds:** TIBs are used to pay for the rehabilitation, reconstruction or replacement of State and municipal bridges, culverts and roads, and State railroads, airports and necessary buildings with a

remaining useful life of 30 years. TIBs are revenue bonds, and not general obligation bonds, as they are secured by the motor fuel transportation infrastructure assessment.

Bond Ratings

- **Why are bonds rated?:** Bond credit ratings assess a state's risk of paying all interest and principal back to investors. Credit ratings influence both the ability of a state to raise funds from investors and the yield investors will demand to receive on the bond. A highly rated bond is assumed to have lower risk, but it will also produce a lower yield for investors. Conversely, lower quality issues have a much higher yield because they are considered riskier investments.

- **Who rates bonds?:** Bond ratings are determined by specialized rating agencies to determine the overall risk of the issue. The three major rating agencies are Moody's Investor Services ("**Moody's**"), Standard and Poor's ("**S&P**"), and Fitch Ratings ("**Fitch**").

    - The rating agencies assign a bond one of four major investment grade ratings: (1) Highest (Aaa/AAA/AAA), (2) High (Aa/AA/AA), (3) Above Average (A/A/A), and (4) Medium (Baa/BBB/BBB). All long-term bonds rated below Medium are considered below investment grade.

    - Ratings also include outlooks - positive, stable and negative – that indicate the possible trajectory of the rating.

- **Vermont's Rating:** As of June 2016, Vermont maintains stable triple-A ratings from both Moody's and Fitch. S&P has rated Vermont's general obligation bonds AA+, with a stable outlook.

Authority to Issue Bonds

- **Statutory Authority:** The State Treasurer, with the approval of the Governor, may authorize the State to borrow money for various capital purposes of the State.

- **Capital Debt Affordability Program:** Vermont is one of several states that conduct a debt affordability analysis in the capital planning process to determine how much debt the State can afford. In 1990, the Capital Debt Affordability Advisory Committee (the "**CDAAC**") was created to complete an annual review of the size and affordability of the State tax-supported general obligation debt. The CDAAC is responsible for submitting an estimate of the maximum amount of new long-term general obligation debt that prudently may be authorized for the next fiscal year to the Governor and to the General Assembly. The CDAAC's estimate is only advisory, but the General Assembly has historically adopted its recommended debt limit.

    - The CDAAC is comprised of seven members. Three are ex officio State officials, one is a non-voting ex-officio State official, and three are appointed from the private sector appointed members (two appointees of the Governor and one appointee of the Treasurer). The State Treasurer serves as the Chair.

    - In December 2014, and again in September 2015, CDAAC recommended a maximum of $144,000,000 for FY2016 and FY2017. In September 2016, CDAAC recommended a maximum of $132,460,000 for the FY2018 and FY2019 biennium.

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Summary of Outstanding Debt

Outstanding General Obligation Net Tax-Supported Debt (as of 6/30/2016)

Type of Debt	Total Outstanding Debt	Debt Service
General Fund	$619,063,000	$67,334,000
Transportation Fund	7,652,000	1,947,000
Special Fund	320,000	628,000
Capital Leases	10,015,000	508,000
Total	$637,050,000	$70,418,000

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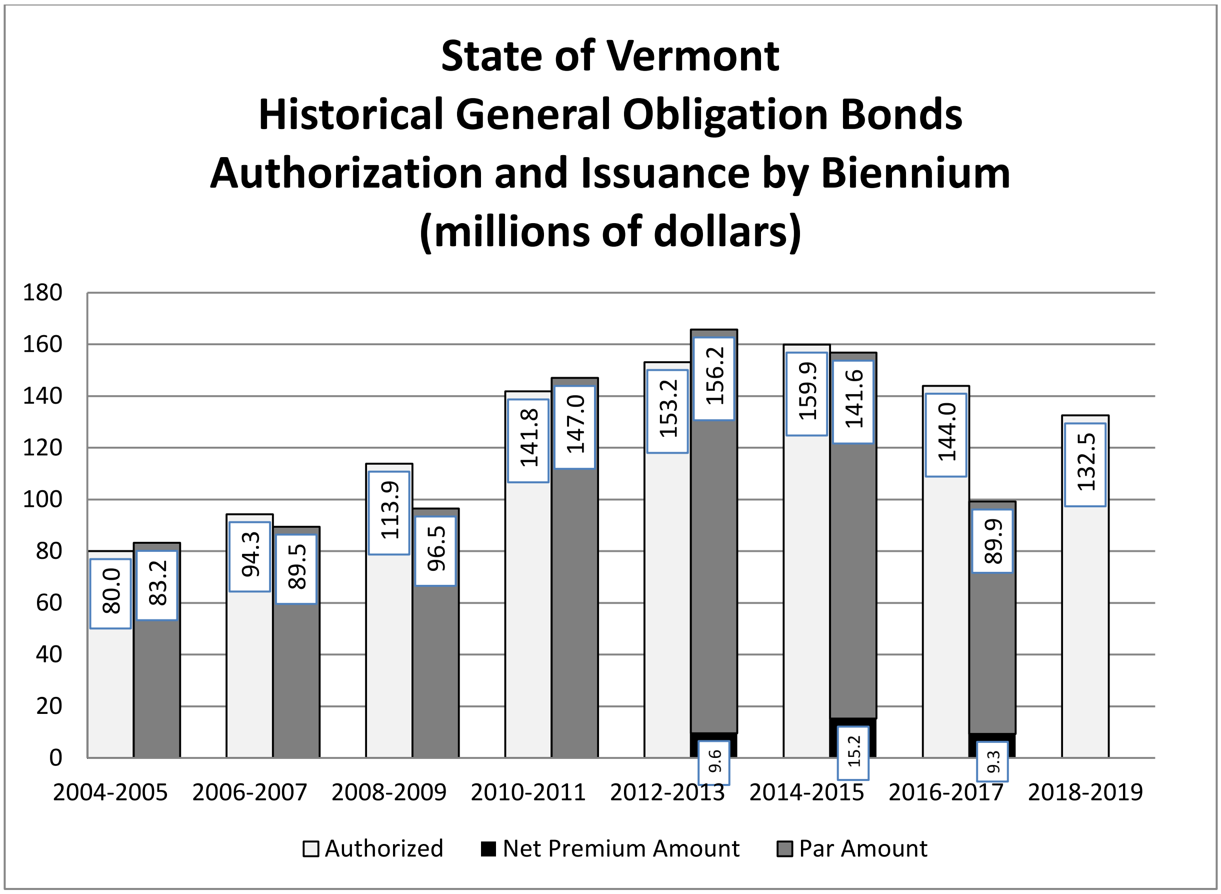
Recent Debt Authorizations

No General Obligation bonds have been sold so far in FY2017. The Treasurer anticipates selling some in the next few months. The following chart presents the amounts of general obligation debt that have been authorized and issued by the State since FY 2004.



Notes: Annual issuances do not include refunding bonds. Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances. Starting in FY2013, premium received from the sale of bonds may be applied towards the purposes for which such bonds were authorized. Accordingly, the "issuance" amount reflected above, commencing with FY2013, represents total proceeds (par plus net premium) of the bonds issued that were or are expected to be made available for capital purposes.