CAPITAL FINANCING AND DEBT MANAGEMENT OVERVIEW

Vermont State Treasurers Office
January 2018

VERMONT

VERMONT'S OVERALL DEBT STRATEGY

- The State has substantially reduced outstanding debt since 1990s, ***but***
  - Need to manage recent trend vs. recent national trend of reductions in bond issuance

- Uncomplicated debt profile, almost entirely general obligation debt
  - Transportation Infrastructure Bonds

- 100% fixed rate

- Level principal produces rapid amortization (reducing debt by quick installment payments)

- Capital Appropriation Changes adopted by the General Assembly have improved the process:
  - Two year recommendations
  - Use of bond premium
  - Review and use of residual dollars from prior capital projects

CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

- The CDAAC was created by State statute in 1989
- Annually reviews affordability of Vermont's net tax-supported debt
- Recommends annual debt issuance to Governor and General Assembly
- Recommendation is advisory; in practice, Governor and General Assembly have always adopted
- Reviews amount and condition of bonds, notes, and other obligations for which the State has a contingent liability or moral obligation

CDAAC RECOMMENDATION AND COMMENTS

- More limited debt issuance by other states, including our peer Triple-A rated states, has resulted in a weakening of Vermont's debt ratio comparative ratings
- Although the amount of outstanding debt at fiscal year-end appears lower than a year ago, largely attributed to delay in issuing bonds until September 2017
- This is the second year of the 2018-2019 biennium and the Committee re-affirmed its 2-year debt authorization of $132,460,000 adopted by the general Assembly in the 2017 Capital Bill
- This represents a reduction of 8.01% from the previous recommendation of $144,000,000 and 18% over the last four years
- Need to maintain our reserves: Some states have recently seen a decline in their ratings or ratings outlook based on their depletion of stabilization or rainy day reserves

BOND RATINGS OF NEW ENGLAND STATES

As of September 2017, Vermont has the highest overall credit ratings of the New England states. The major credit rating agencies are Moody's Investors Service, S&P Global Ratings, and Fitch Ratings.

State	Moody's	S&P	Fitch
Vermont	Aaa	AA+	AAA
Connecticut	A1	A+	A+
Maine	Aa2	AA	AA
Massachusetts	Aa1	AA	AA+
New Hampshire	Aa1	AA	AA+
Rhode Island	Aa2	AA	AA

MOODY'S AAA RATING

- **Credit Strengths**
  - » Strong fiscal management leading to surpluses most years
  - » Good progress on funding pension liabilities
  - » Modest debt burden

- **Credit Challenges**
  - » Above-average net pension liability
  - » Aging population and work force
  - » Slow economic and revenue growth

- **Rating Outlook**
  - »The stable outlook reflects the State's proven ability to balance its budget in a variety of operating environments. Having grown fund balance and liquidity substantially in the past few years, Vermont is financially well-positioned for the future.

- **Factors that Could Lead to a Downgrade**
  - » Reversal of recent progress toward better funding of pension liabilities
  - » Reversal of historical track record of running budget surpluses even in bad years
  - » Protracted population loss, aging

QUOTES FROM MOODY'S MOST RECENT RATINGS REPORT RATING: AAA

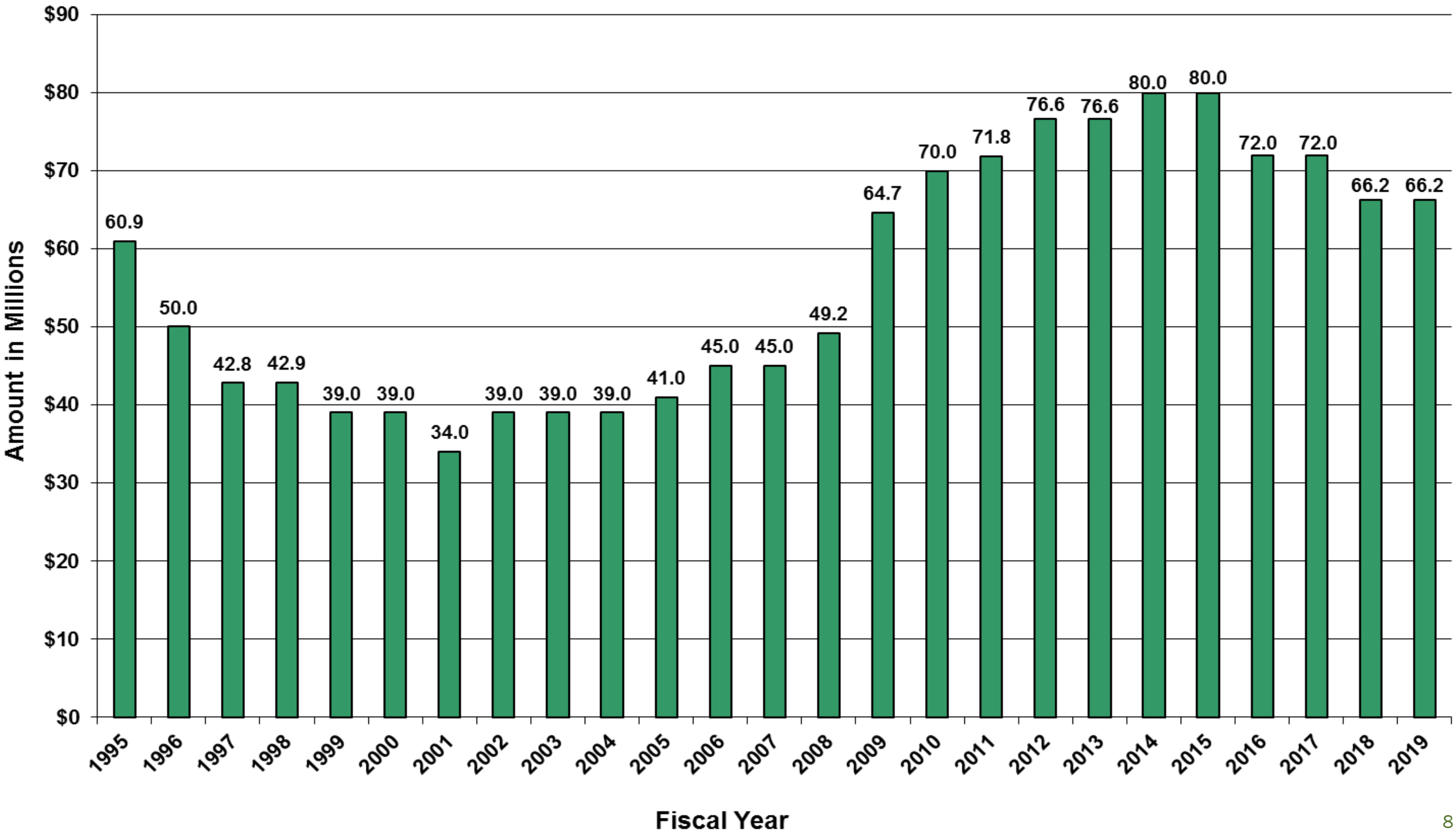
Pensions and OPEB:
Vermont is an above-average pension state, and its net pension liability paired with its aging population remains the biggest credit weakness at the AAA level. Nonetheless, Vermont's pension situation is nothing out of the ordinary for the New England region. Several neighboring states face similar pension challenges reflecting the demographic dynamics of an aging population and work force.

A few positives about Vermont's pension burden are important to note.
First, Vermont is aggressively funding its net pension liability, and has adopted several measures (such as lowering the assumed rate of return) to assure it remains on track to full funding by 2037.

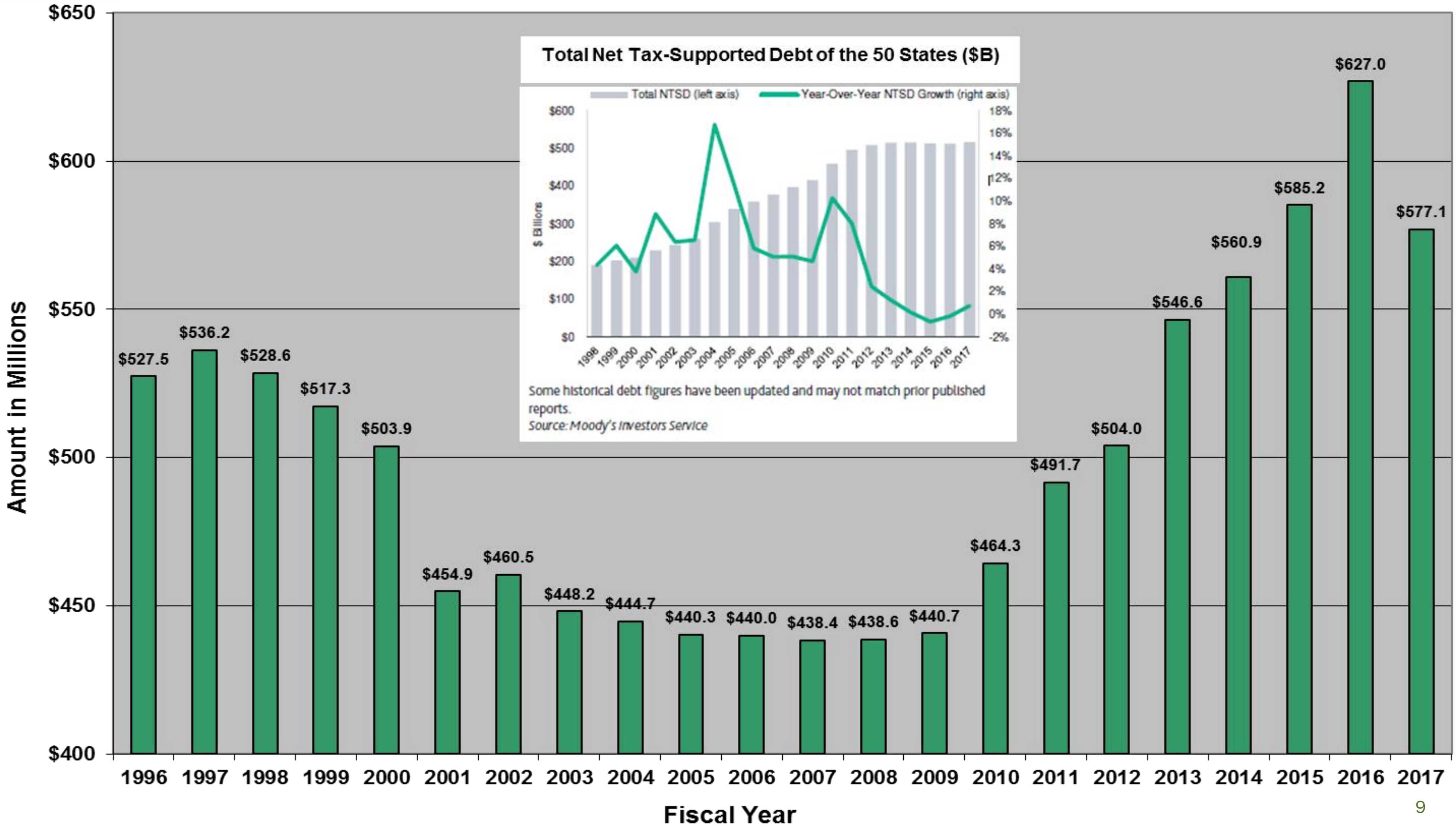
As a proxy to measure whether a state's net pension liabilities are generally on track to grow or shrink, we look at the contribution it would need to make to "tread water" (meaning to keep net pension liabilities unchanged assuming all actuarial assumptions are met), and compare that to its actual contribution**. Vermont's actual contributions are more than its tread water contribution, reflecting its path toward improving funded ratios over the coming years. This cannot be said about all states, and Vermont's pension contributions put it in a much better position than some of the states with the biggest pension problems.**

Note: Bold added

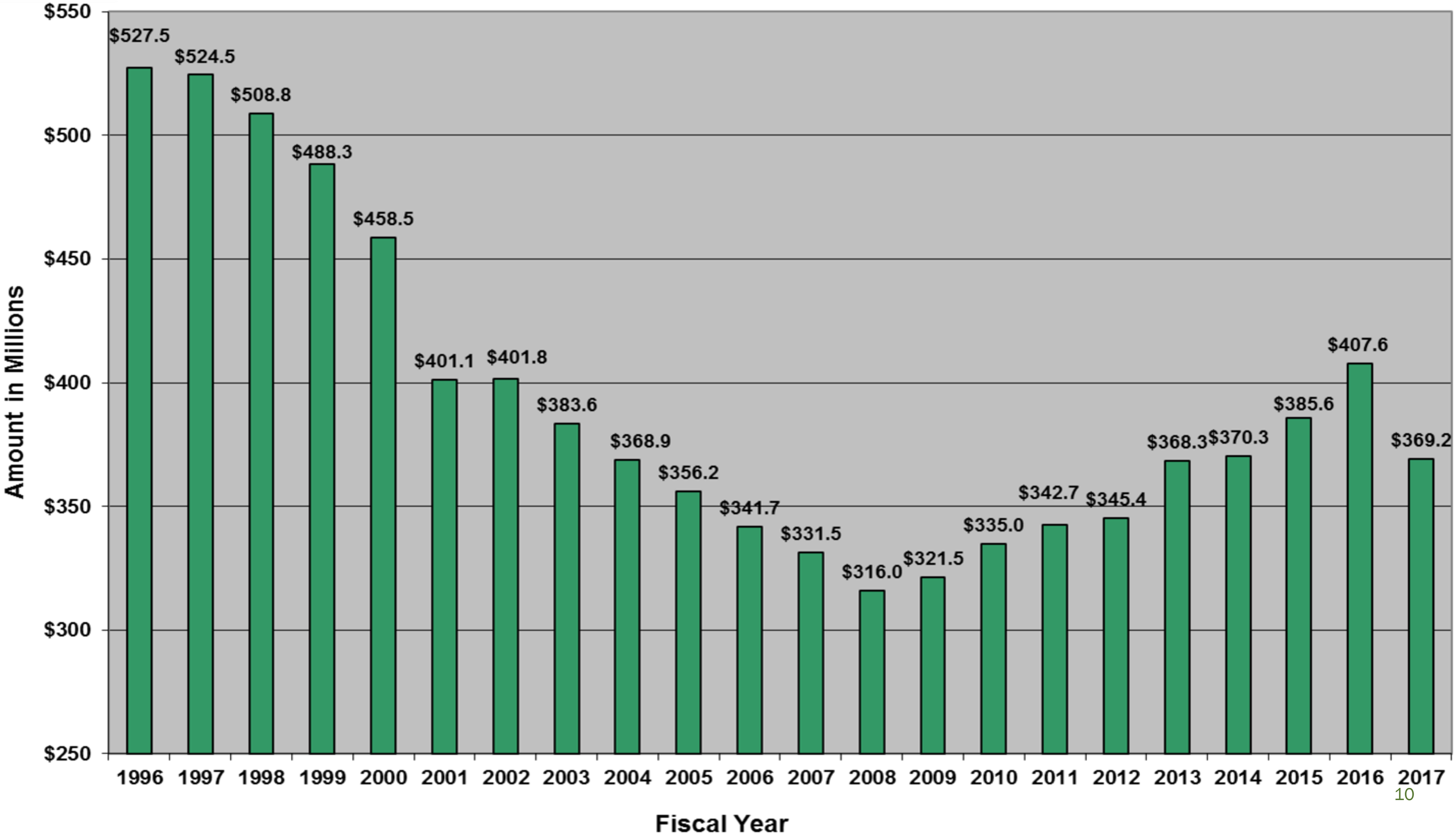
State of Vermont
General Obligation (G.O.) Debt Authorizations, FY1995-FY2019 ($ millions)



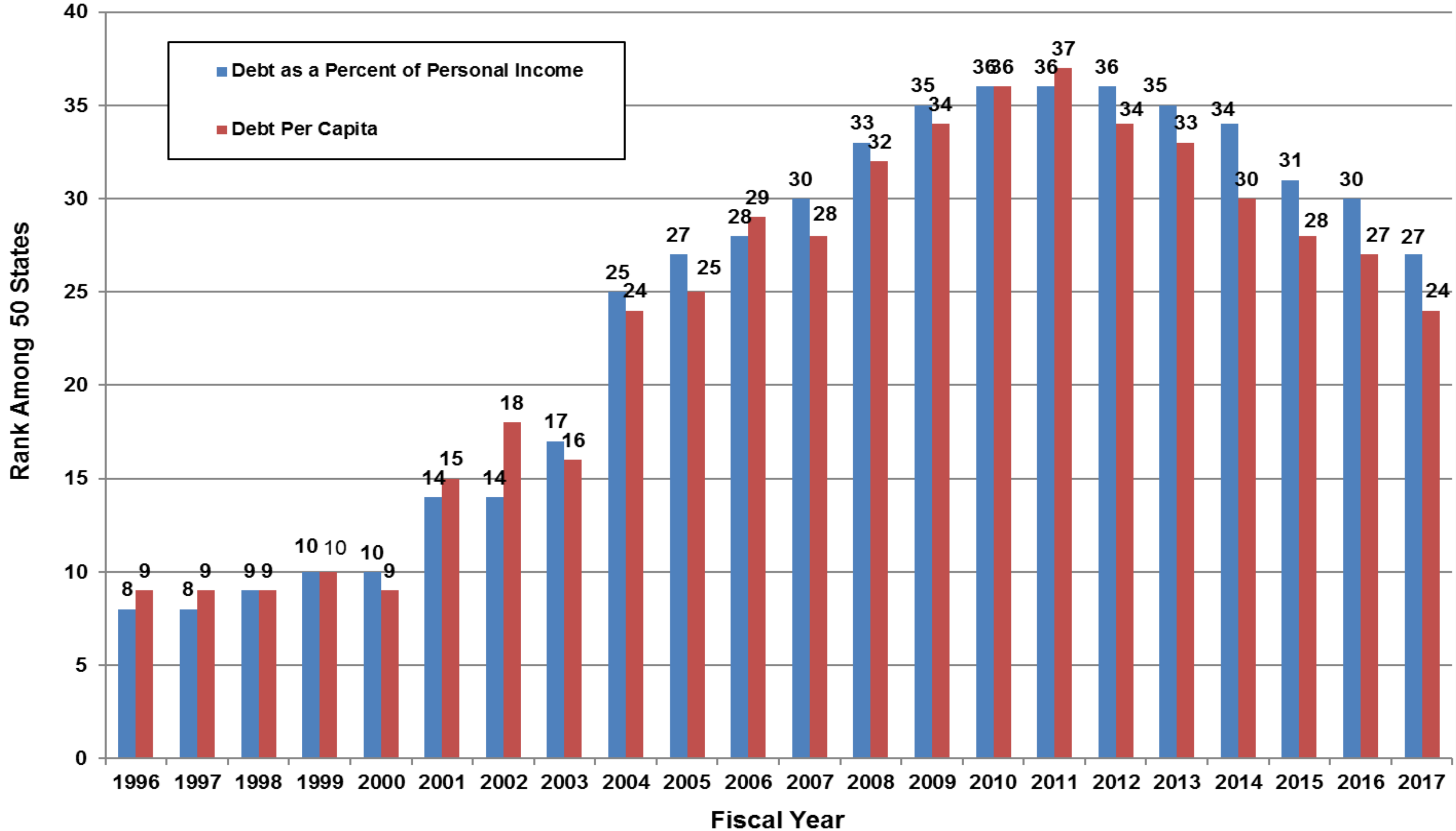
State of Vermont
G.O. Debt Outstanding, FY1996-FY2017 vs. National Trend



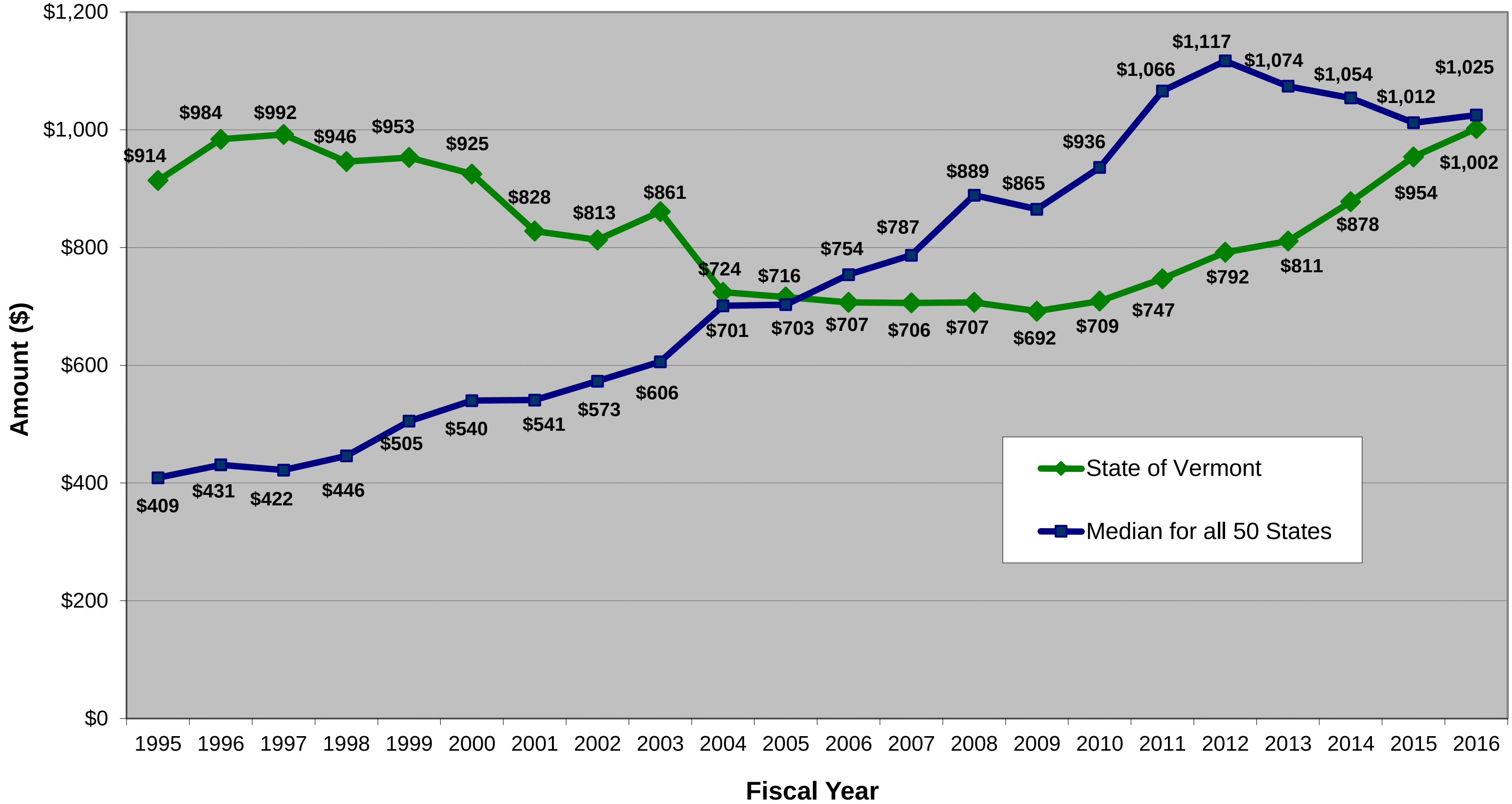
State of Vermont
G.O. Debt Outstanding, FY1996-FY2017
Adjusted for Inflation (Using 1996 Dollars)



State of Vermont
Historical State Debt Rankings



State of Vermont
Net Tax Supported Debt Per Capita



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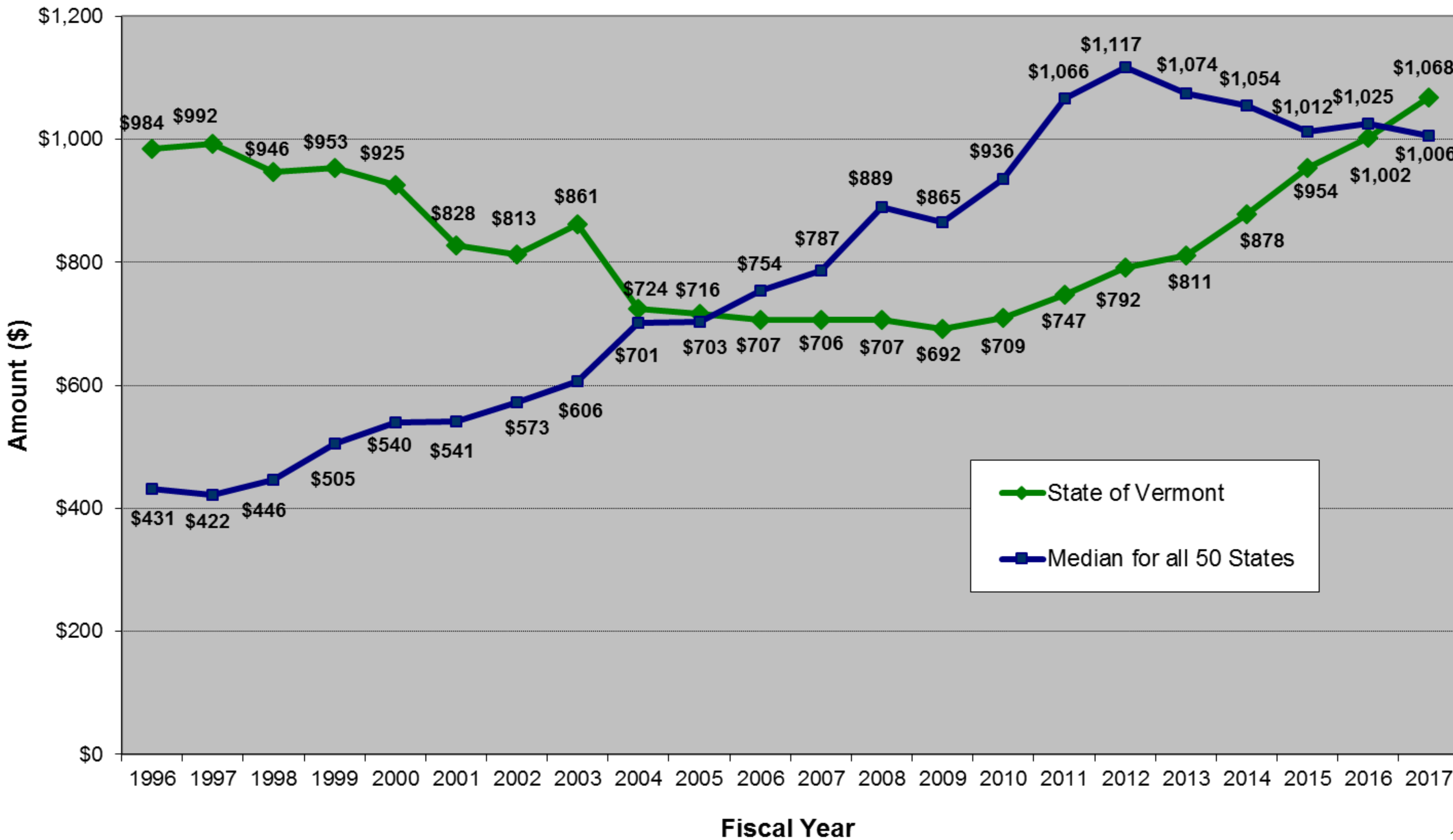

CREDIT RATING RELATED PRIORITIES

- **Pension Funding:** Continue 100% funding of the annual required contributions ("ARCs"), now called ADECs, of the Vermont State Employees' and State Teachers' Retirement Systems pension funds

- **Reserves:** Continue to maintain the 5% budget stabilization reserves, and build the newly-created General Fund Balance Reserve (or "rainy day reserve") to a target level of 3% of the general fund incrementally and over time

- **Debt Recommendation:** Continue unbroken record of adopting the Capital Debt Affordability Advisory Committee's (CDAAC) biennium recommendation.