

CAPITAL FINANCING AND DEBT MANAGEMENT OVERVIEW

Vermont State Treasurer's Office
January 2019



VERMONT'S OVERALL DEBT STRATEGY

- The State has substantially reduced outstanding debt since 1990s, however there is a need to continue in light of national trend of reductions in bond issuance
- Uncomplicated debt profile, almost entirely general obligation debt
 - Transportation Infrastructure Bonds – issued 2010-2013
- 100% fixed rate bonds
- Level principal produces rapid amortization
- Capital Appropriation Changes adopted by the General Assembly have improved the process:
 - Two year recommendations
 - Use of bond premium used for projects reduces amount of issuance

CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

- The CDAAC was created by State statute in 1989
- Annually reviews affordability of Vermont's net tax-supported debt
 - Benchmark to debt ratios of other Aaa rated states
 - Debt as a Percentage of Personal Income
 - Debt as a Percentage of Revenues
 - Debt Per Capita
- Recommends annual debt issuance to Governor and General Assembly
- Recommendation is advisory; in practice, Governor and General Assembly have always adopted
- Reviews amount and structure 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
- This is the first year of the 2020-2021 biennium and the Committee is making a 2-year debt recommendation of \$123,180,000
- This represents a reduction of 7.0% from the previous recommendation of \$132,460,000 and 23% over the last six years
- Need to remain disciplined in making actuarially determined employer contributions (ADEC)
- Support of FY19 reserve increases: The rating agencies are recognizing the need for higher levels of reserves

BOND RATINGS OF NEW ENGLAND STATES

As of December 2018, 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	Aa1	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 DOWNGRADE

- **Credit Strengths**
 - » Above average resident income
 - » Educational attainment is high
 - » Low unemployment
 - » Liquidity is healthy and stable
- **Credit Challenges**
 - » Economic performance lags that of US and many peers
 - » Aging population may be drag on future growth
 - » Relative to GDP, leverage (combined debt and unfunded pensions) is higher than most states
- **Rating Outlook**
 - » The stable outlook reflects the expectation that economic fundamentals, financial position and fiscal management will remain strong and support the current rating.
- **Factors that Could Lead to an Upgrade**
 - » Improved demographic and economic trends that more closely track US and other highly rated states
 - » Moderated leverage, especially unfunded pension and retiree health care liabilities, relative to state GDP
- **Factors that Could Lead to a Downgrade**
 - » Substantial growth in debt or unfunded post-employment liabilities
 - » Slowdown in economic expansion or revenue growth
 - » Departure from strong fiscal management practices

QUOTES FROM MOODY'S MOST RECENT RATINGS REPORT RATING

Debt and pensions:

“Vermont’s net tax supported debt (NTSD) ratios are very close to or below state medians. But, the state carries a heavy unfunded pension burden. As a share of state nominal GDP, Vermont’s fiscal 2017 adjusted net pension liability (ANPL) is the 8th highest of the 50 states. It ranks 10th in combined ANPL and NTSD as a percentage of GDP.

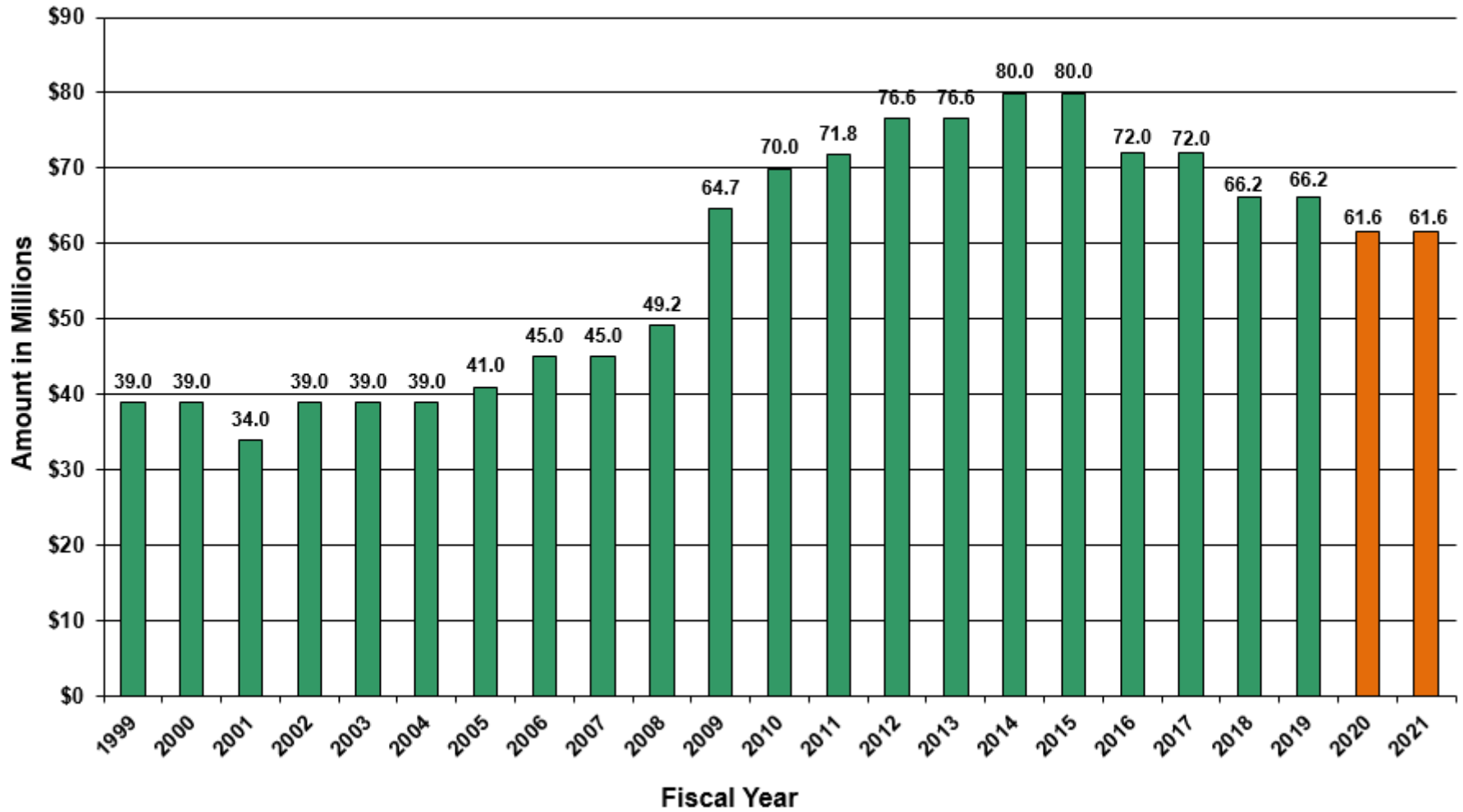
Vermont’s debt and pension burden is still much lower than those of the most highly leveraged states. Importantly, Vermont’s pension burden incorporates all liabilities associated with statewide school districts because the state accounts for all primary and secondary education financial activities. This is a big driver of Vermont’s high pension burden relative to other states”.

Pensions and OPEB:

“Across both of its retirement plans (the Vermont State Retirement System and State Teachers’ Retirement System), Vermont’s pension contribution of \$142 million in fiscal 2017 consumed just under 4% of its own-source revenue”.



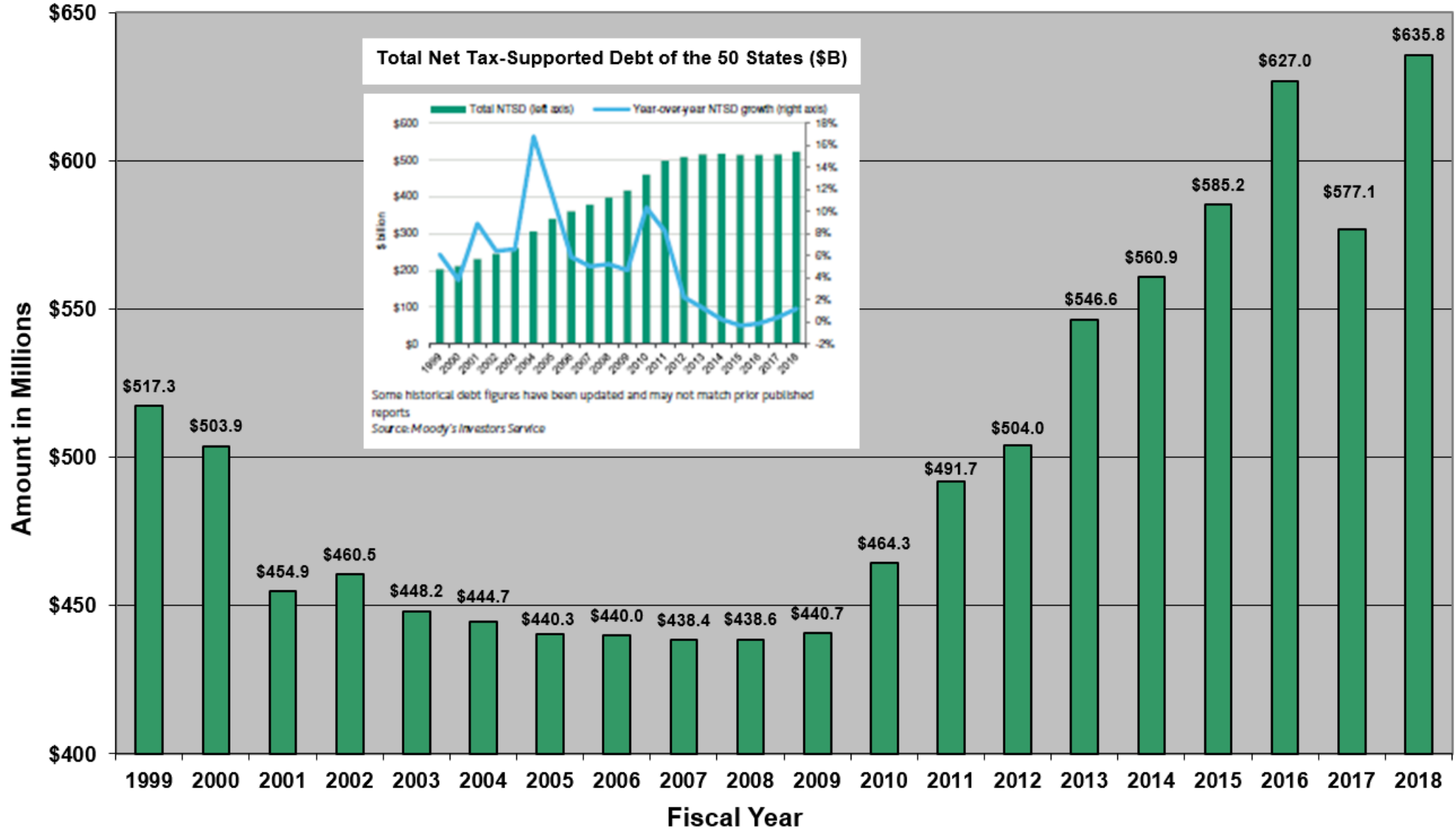
State of Vermont - General Obligation (G.O.) Debt Authorizations FY1999-FY2019, Recommendation FY2020-FY2021 (\$ millions)





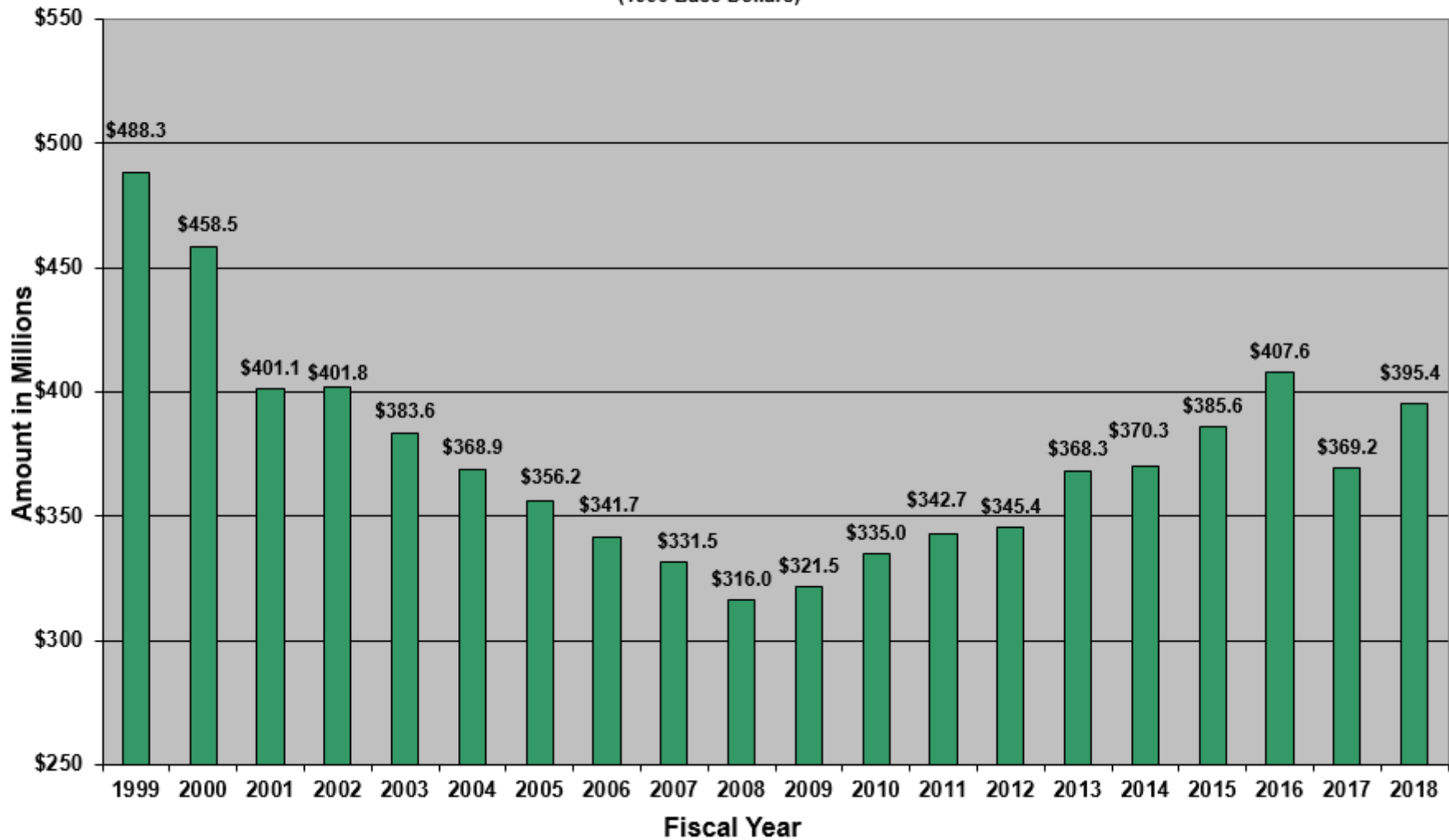
State of Vermont

G.O. Debt Outstanding, FY1999-FY2018 vs. National Trend





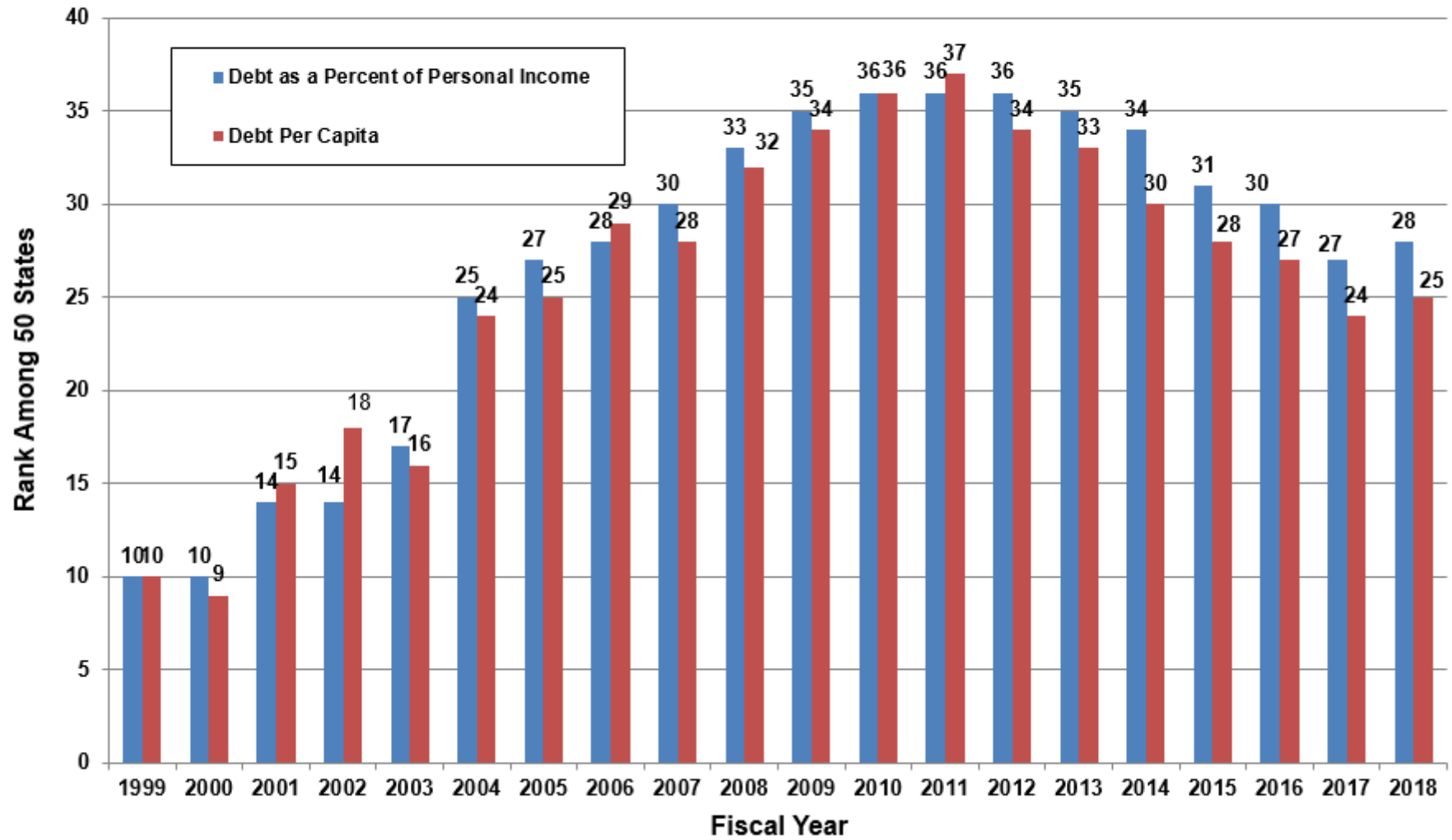
State of Vermont G.O. Debt Outstanding, FY1999-FY2018 Adjusted for Inflation (1996 Base Dollars)





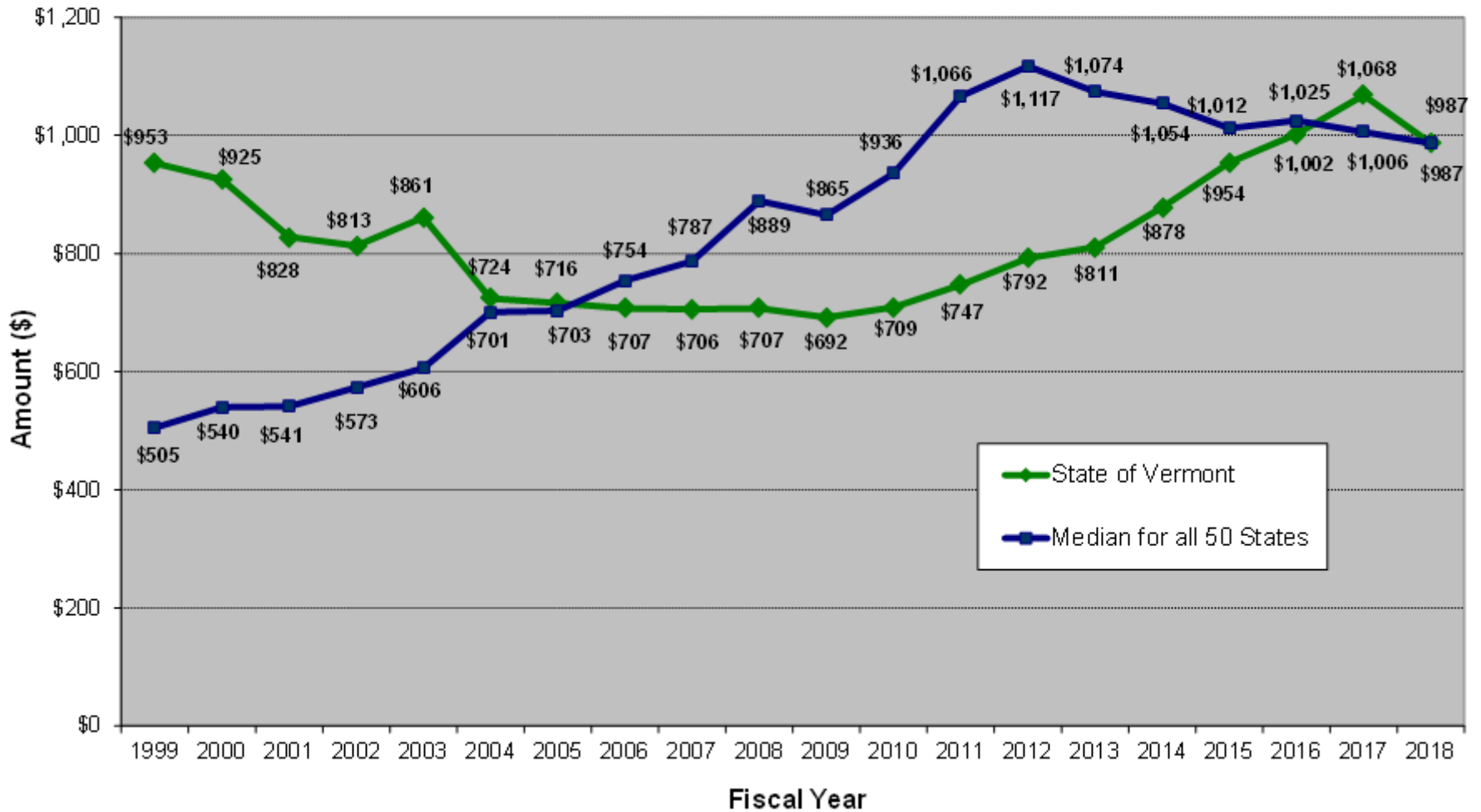
Picture 1

State of Vermont Historical State Debt Rankings



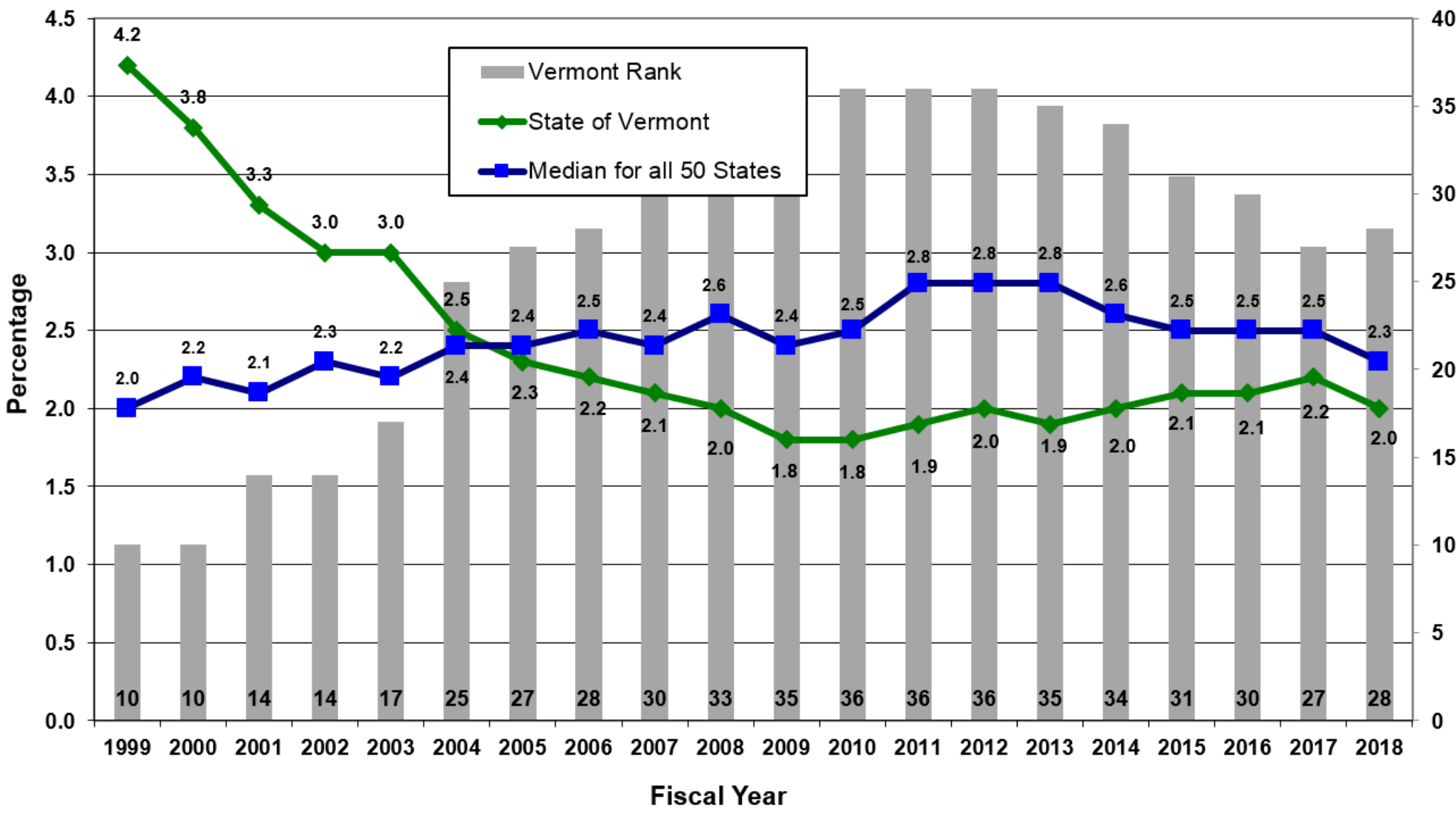


State of Vermont Net Tax Supported Debt Per Capita





State of Vermont Net Tax Supported Debt as a Percent of Personal Income



Unrestricted Cash Balance and Budget Stabilization Reserves

Fiscal Year Ending	Unrestricted Cash Balance *		Budget Stabilization Reserves***			Total GF/TF/EF
	Average for Year	As of June 30	General Fund	Transportati	Education Fund	
6/30/2005	101,191,820	220,008,897	45,770,774	11,098,230	22,901,303	79,770,307
6/30/2006	121,955,551	259,146,460	51,807,658	11,043,987	24,324,432	87,176,077
6/30/2007	137,045,318	261,214,532	55,223,571	10,670,870	28,247,817	94,142,258
6/30/2008	135,594,291	279,798,167	57,839,077	11,199,306	29,392,569	98,430,952
6/30/2009	155,365,463	235,624,774	60,013,570	11,290,397	31,080,482	102,384,449
6/30/2010	182,539,074	290,289,474	57,313,939	10,283,595	29,846,238	97,443,772
6/30/2011	278,634,343	446,326,709	54,372,598	10,438,554	30,287,039	95,098,191
6/30/2012	301,152,056	379,979,911	58,114,034	10,766,086	29,842,632	98,722,752
6/30/2013	279,960,560	348,958,709	62,502,016	10,808,938	29,260,126	102,571,080
6/30/2014	267,996,046	344,298,776	66,160,940	11,549,625	30,337,871	108,048,436
6/30/2015	250,223,768	379,095,752	69,309,130	12,552,891	32,046,076	113,908,097
6/30/2016	263,969,538	435,650,542	71,250,890	12,793,530	32,614,381	116,658,801
6/30/2017	279,925,523	405,243,723	74,101,586	13,255,200	33,457,837	120,814,623
6/30/2018	288,754,087	507,165,881	76,995,070	13,470,018	34,636,439	125,101,527
6/30/2019	N/A	N/A	78,179,431	13,826,758	37,034,377	129,040,566

Other Reserves**

	FY14	FY15	FY16	FY17	FY18	FY19***
General Fund Balance Reserve	5,000,000	6,797,700	6,797,700	17,182,340	12,492,340	15,880,000
27/53 Reserve	-	-	-	5,287,581	10,777,591	12,537,591
Human Services Caseload Reserves	-	-	-	10,000,000	22,000,000	100,086,983
Global Commitment Unencumbered Fund Balance	20,660,191	46,807,573	79,727,079	81,399,250	79,181,097	Unknown
Total GF/TF/EF (from above)	108,048,436	113,908,097	116,658,801	120,814,623	125,101,527	129,040,566
Total Reserves	133,708,627	167,513,370	203,183,580	234,683,794	249,552,555	257,545,140 +

Notes:

*Provided by Office of the State Treasurer

** The balances presented reflect fund balances at the close of each respective fiscal year on a budgetary basis.

***Note that the GF Balance Reserve for FY 2019 is an estimate based on the enacted FY 2019 budget. The Global Commitment fund balance for SFY19 cannot be determined in advance of the closing of fiscal year 2019. During fiscal year 2019, approximately \$78 million will transfer from the Global Commitment fund to the Human Services Caseload Reserve (accordingly, the fiscal year 2019 Human Services Caseload Reserve fund balance reflects the budgeted transfer).

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 budget stabilization reserves, and build the General Fund Balance Reserve (or “rainy day reserve”) incrementally and over time
- **Debt Recommendation:** Continue unbroken record of adopting the Capital Debt Affordability Advisory Committee’s (CDAAC) biennium recommendation of \$123.18 million net tax-supported debt