

CAPITAL FINANCING AND DEBT MANAGEMENT OVERVIEW

Vermont State Treasurer's Office
January 2021



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 Service 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 2022-2023 biennium and the Committee is making a 2-year debt recommendation of \$123,180,000
- This is the same level as the previous recommendation and represents a reduction of 23% since the 2014-15 recommendation
- 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

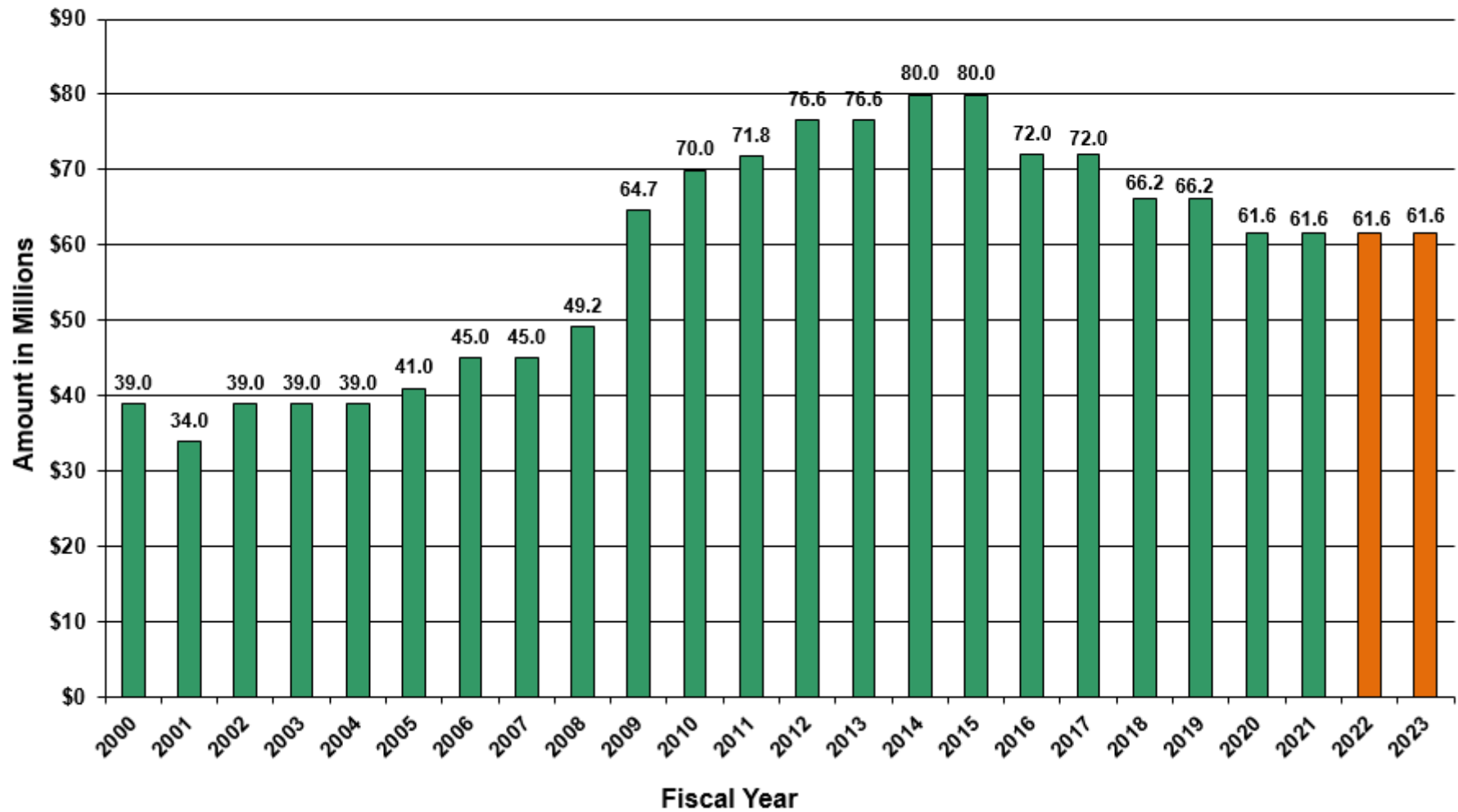
As of December 2020, Vermont has the highest overall credit ratings of the New England states. The major credit rating agencies are Moody's Investors Service, S&P Global Ratings, and Fitch Ratings.

Moody's and Fitch affirmed Vermont's GO rating with Stable outlook in June 2020. S&P affirmed the rating but changed outlook from Stable to Negative in November 2020.

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

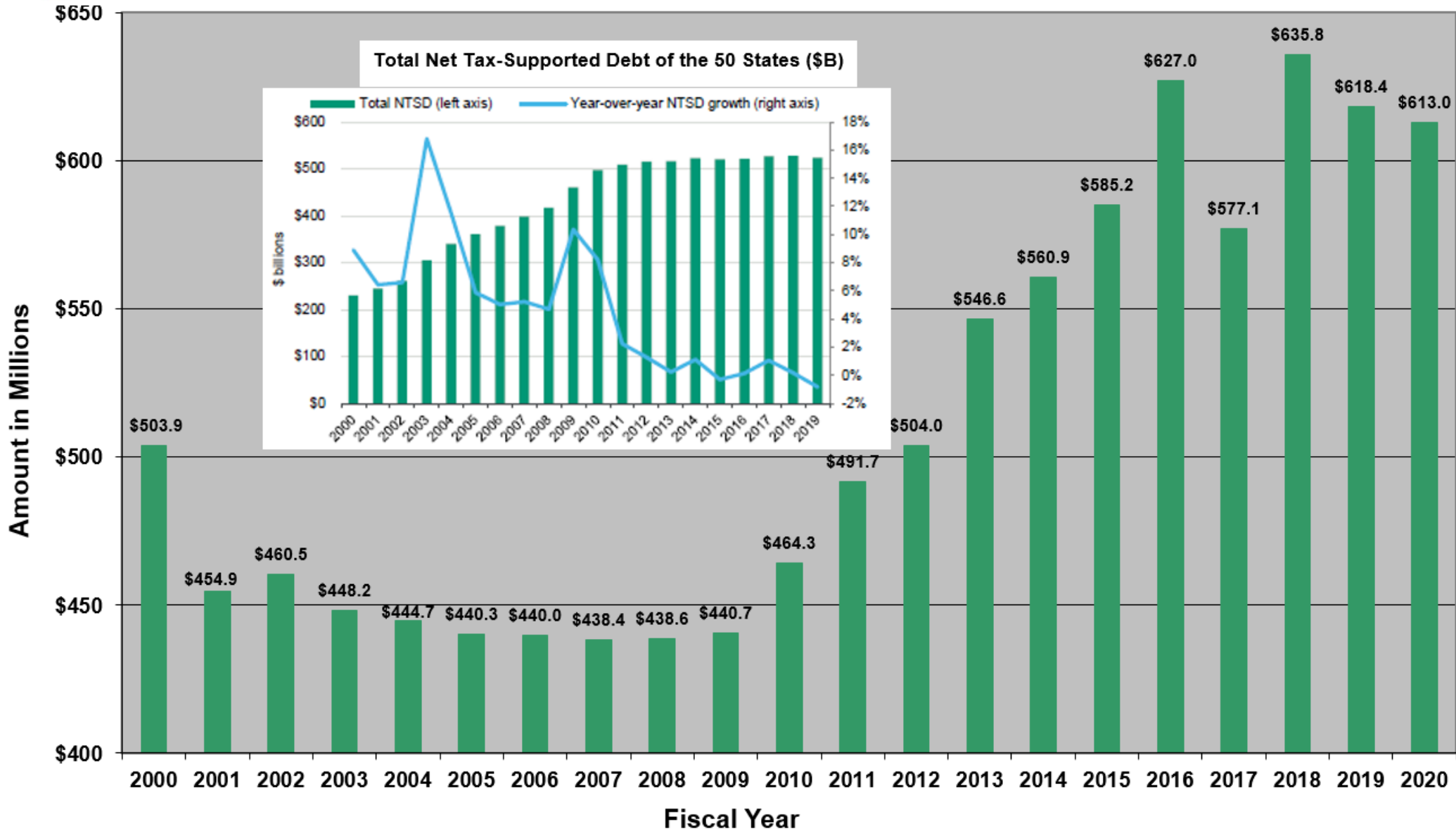


State of Vermont - General Obligation (G.O.) Debt Authorizations FY2000-FY2023 (\$ millions)



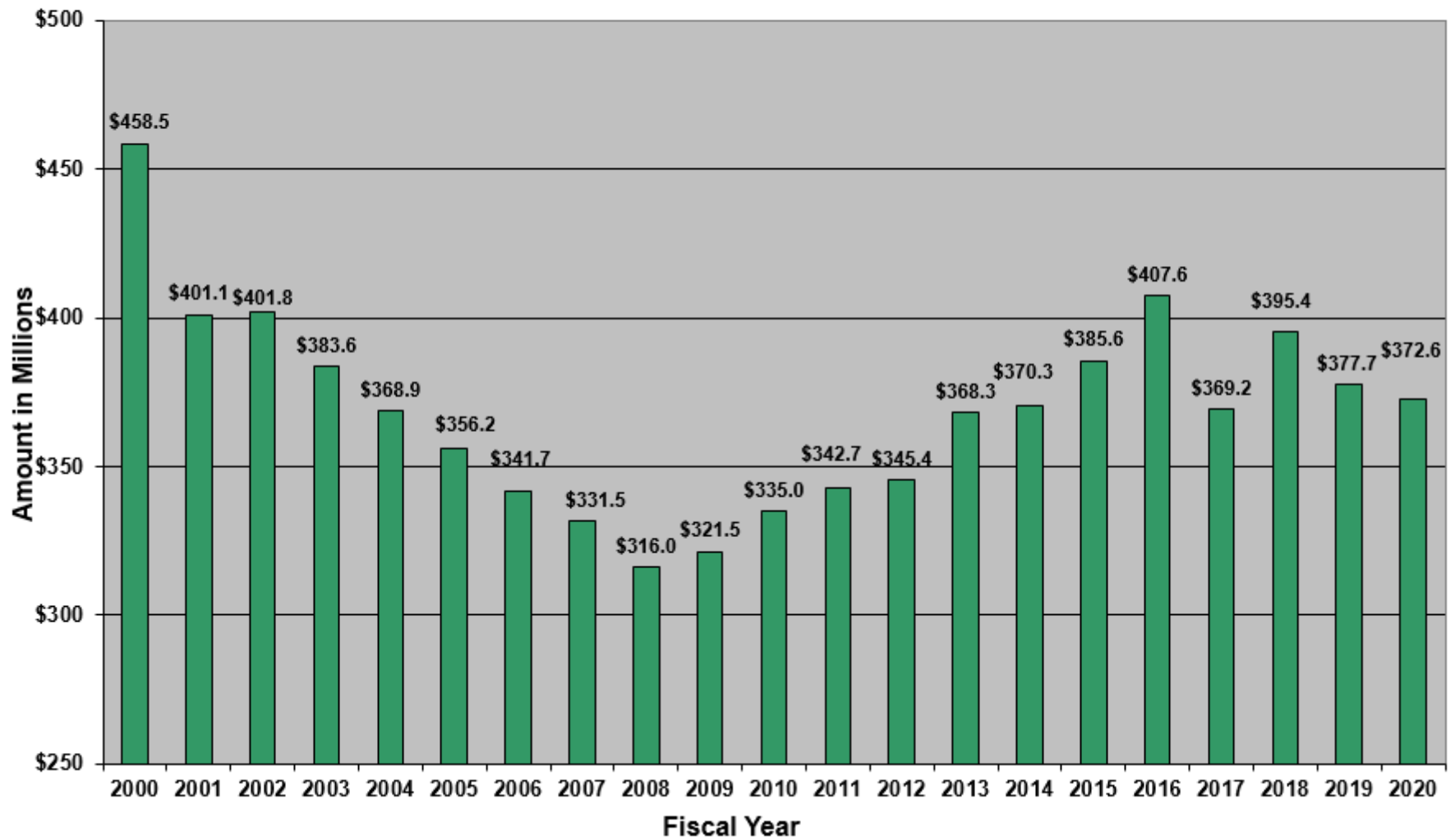


State of Vermont G.O. Debt Outstanding, FY2000-FY2020 vs. National Trend



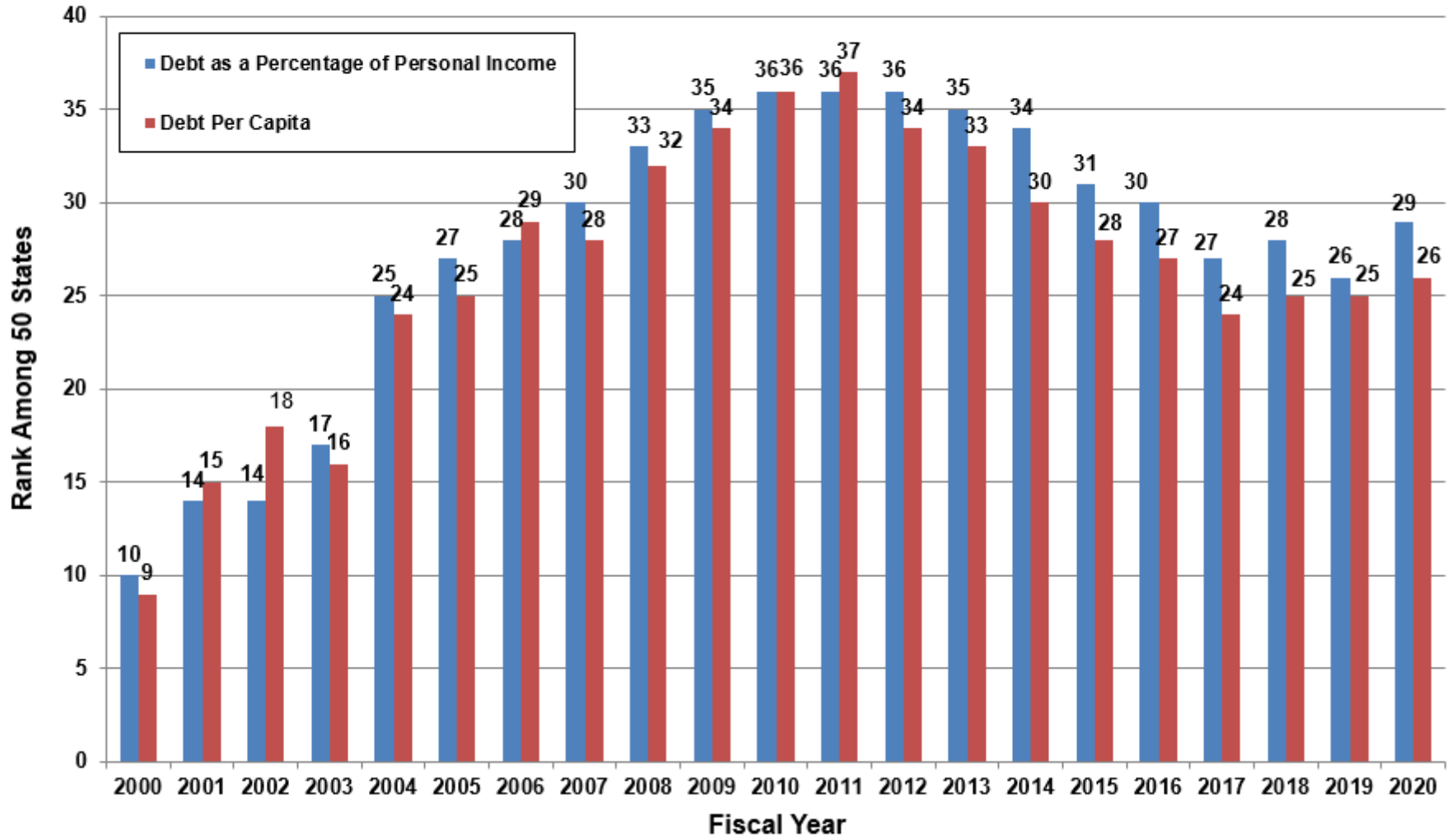


State of Vermont G.O. Debt Outstanding, FY2000-FY2020 Adjusted for Inflation



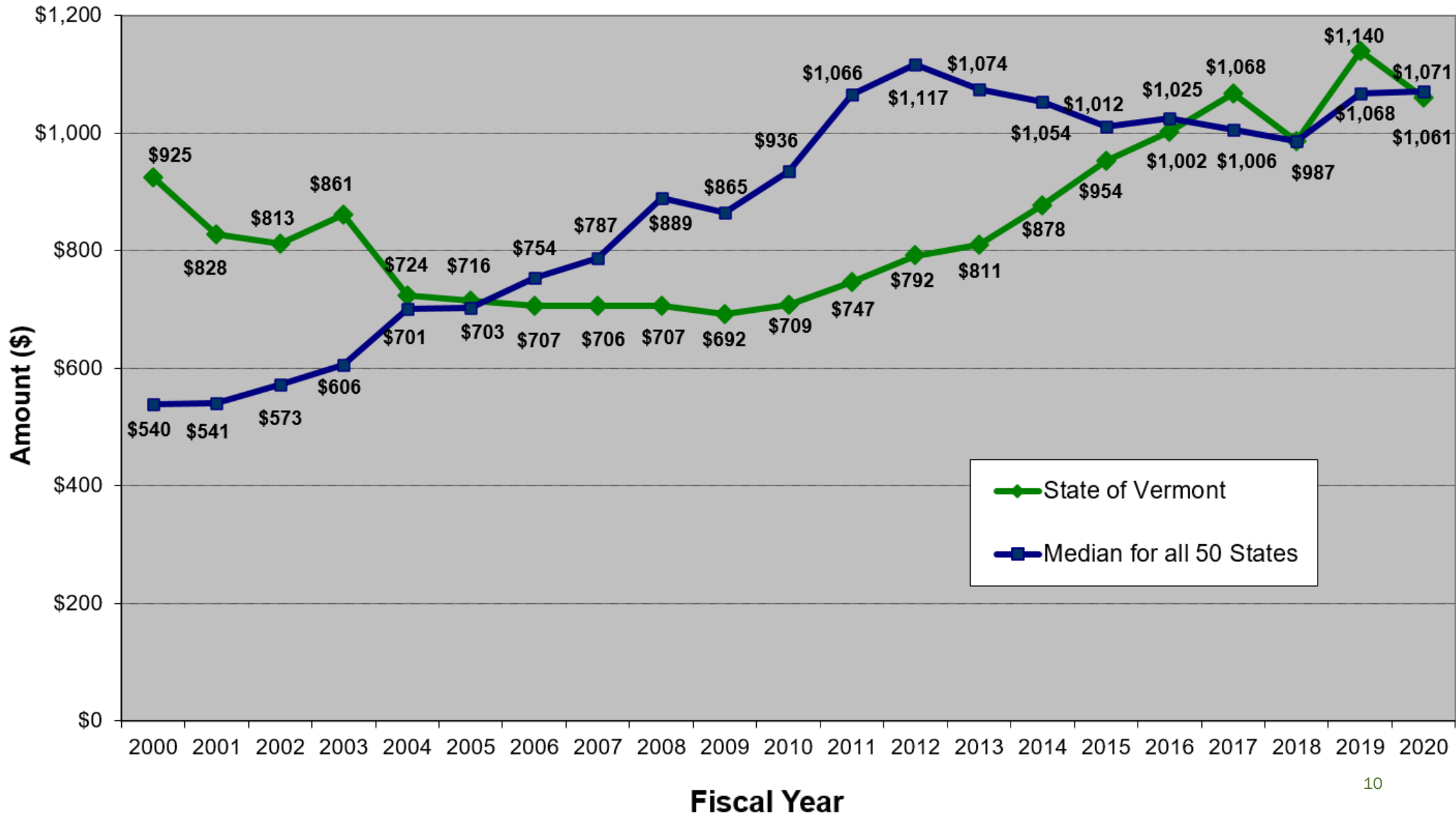


State of Vermont Historical State Debt Rankings



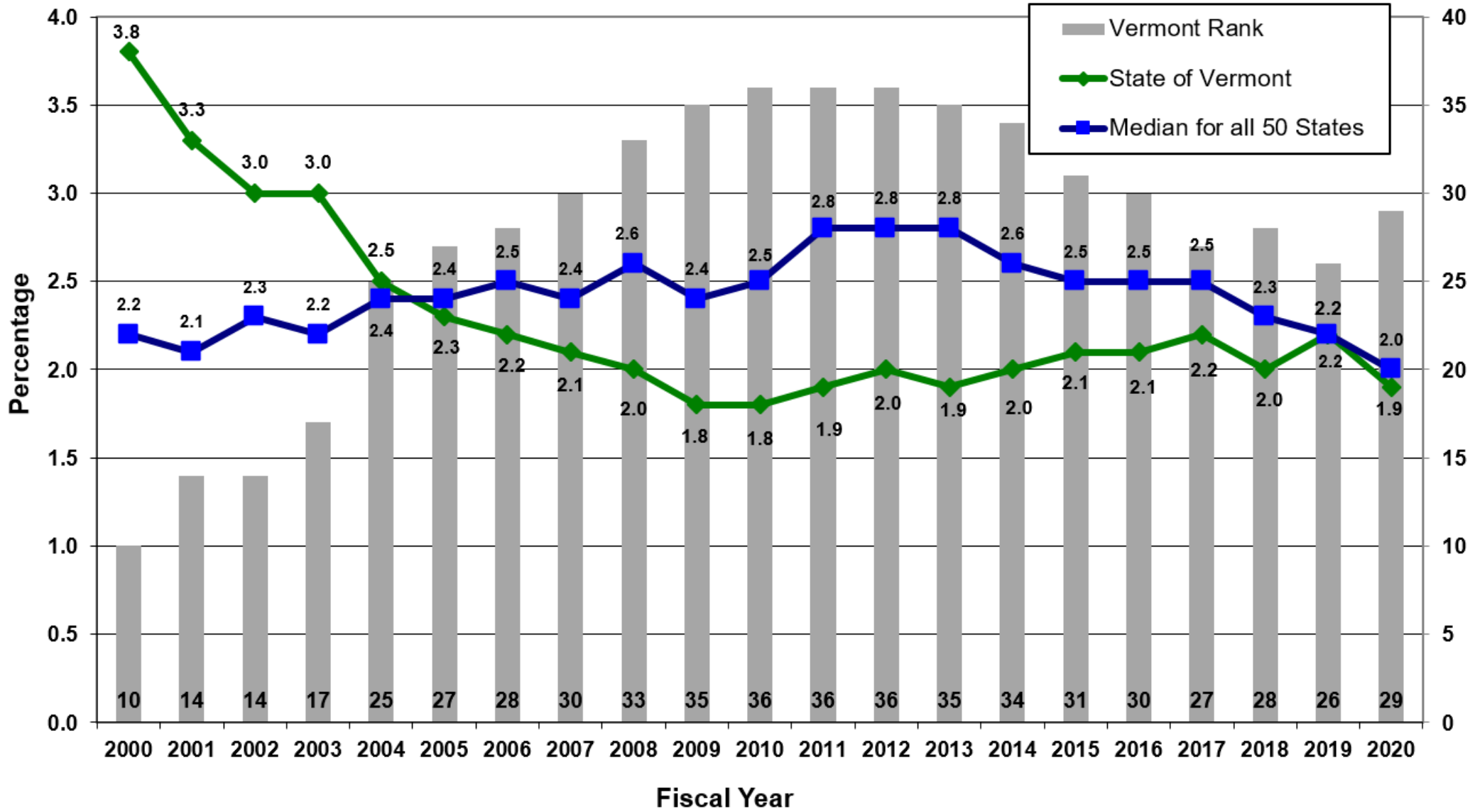


State of Vermont Net Tax Supported Debt Per Capita





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



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