

School Construction Financing

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Overview

- **State Debt Management**
- **CDAAC Recommendation**
- **Debt Metrics**
- **School Construction Financing**
- **Rhode Island Case Study**

State Debt Management: What are Bonds?

- Same basic concept as a home mortgage:
 - A loan for a large purchase, that is paid back over time
- Vermont's bonds also have fixed interest rates like a typical mortgage
- Some ways Vermont's bonds differ from a mortgage:
 - Usually repaid over 20 years (vs. 15 or 30 years)
 - Payments made every 6 months for interest, and 12 months for principal (vs. monthly principal plus interest)
 - Level principal payments (vs. level principal plus interest payments), so earlier payments are larger than later payments, and the amount borrowed is repaid sooner
 - Can only be refinanced after about 10 years (vs. any time)
 - Vermont guarantees repayment from General Fund (vs. home pledged as collateral that can be foreclosed upon)
 - Each bond issue is actually a package of loans from one to 20 years long
 - Large number of lenders (i.e., bond purchasers) such as investment banks, mutual funds, and even Vermont citizens (vs. a single local bank or credit union)

State Debt Management: Treasurer's Statutory Role

- The Treasurer's Office is responsible for managing the State's bonds
 - Title 32: Taxation and Finance, Chapter 13: Debts and Claims
- Duties relating to bonds include:
 - Managing the issuance (sale) and ongoing administration of State bonds
 - Paying principal and interest (debt service) when due
 - Monitoring for refinancing (refunding) opportunities for lower borrowing costs
 - Managing the State's bond ratings (credit scores) and ongoing relationships with the bond rating agencies
 - Contracting for all debt-related State vendors and services (investment bankers, lawyers, financial advisors, economists, rating agencies, custodians and paying agents)
 - Ensuring compliance with all Federal and State laws and regulations
 - Chairing the Capital Debt Affordability Advisory Committee (CDAAC), and delivering the CDAAC's annual debt recommendation and report
- Legislative Committees consider the CDAAC debt recommendation when creating the biennium Capital Bill

State Debt Management: Vermont's Overall Debt Strategy

- Vermont has conscientiously and consistently maintained excellent bond ratings, to achieve the lowest possible borrowing costs for Vermont's citizens and taxpayers
- The State has substantially reduced outstanding debt since the 1990s, however there is a need to continue in light of national trend of reductions in bond issuance
- Straightforward debt profile, almost entirely General Obligation (G.O.) debt
 - Transportation Infrastructure Bonds (TIBS) backed by motor fuel assessment issued 2010-2013, fully redeemed in June 2022
- 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 (CDAAC)

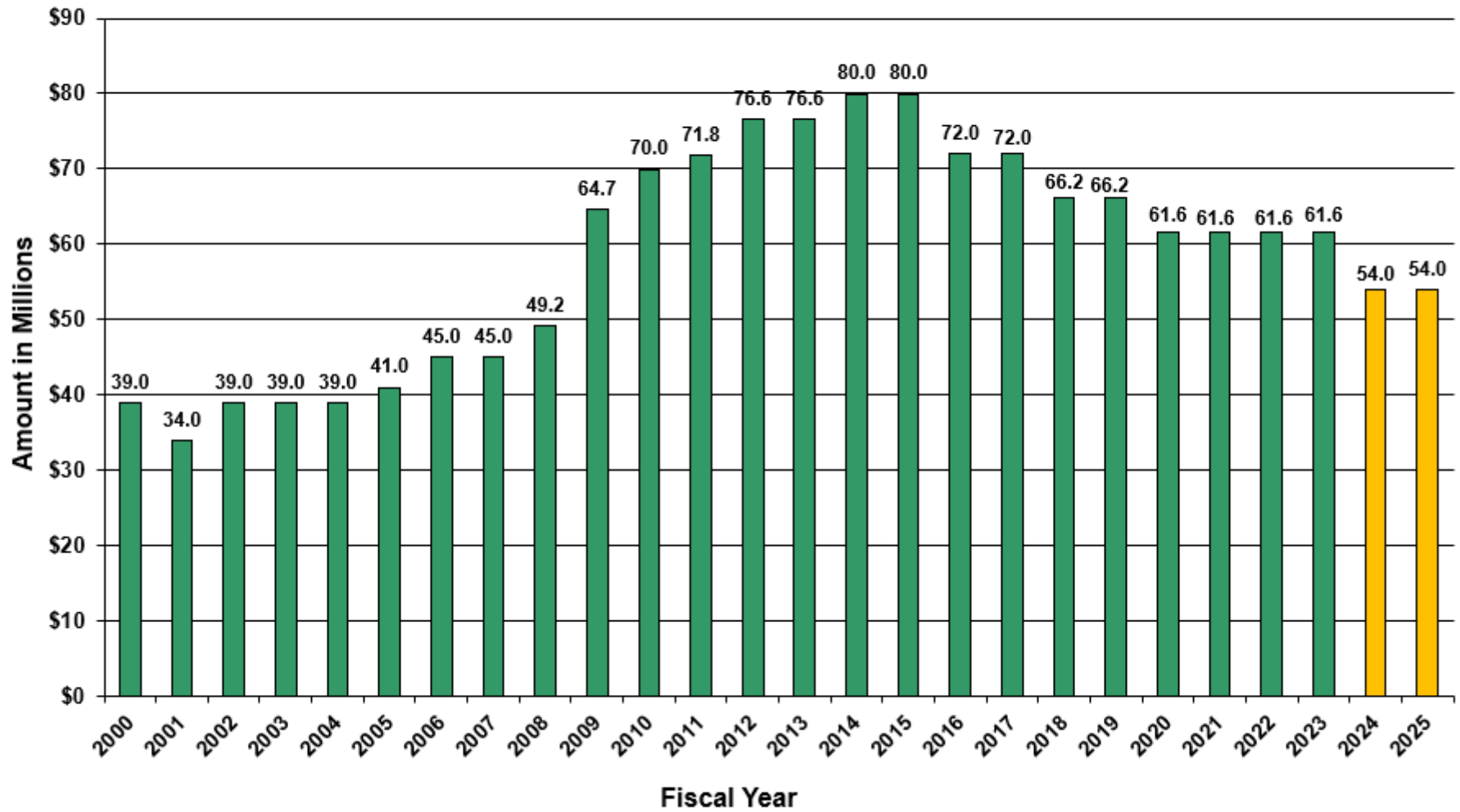
- The CDAAC was created by State statute in 1989
 - Title 32: Debts and Claims, Chapter 13: Debts and Claims, Subchapter 8: Management of State Debt
- Annually reviews affordability of Vermont's net tax-supported debt
 - Benchmark to debt ratios of other Aaa rated states
 - Debt as a Percentage of Personal 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 in the biennial Capital Bill and Capital Bill Adjustment
- Reviews amount and structure of bonds, notes, and other obligations for which the State has a contingent liability or moral obligation
- The CDAAC structure is considered a good governance practice by the bond rating agencies

CDAAC Recommendations 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 2024-2025 biennium and the Committee has a two-year debt recommendation of \$108,000,000
- This represents a reduction of 12% from the prior biennium and 37% since the 2014-15 recommendation
- Need to remain disciplined in making actuarially determined employer contributions (ADEC)
- Continued support for reserve increases is also important: The rating agencies are recognizing the need for higher levels of reserves



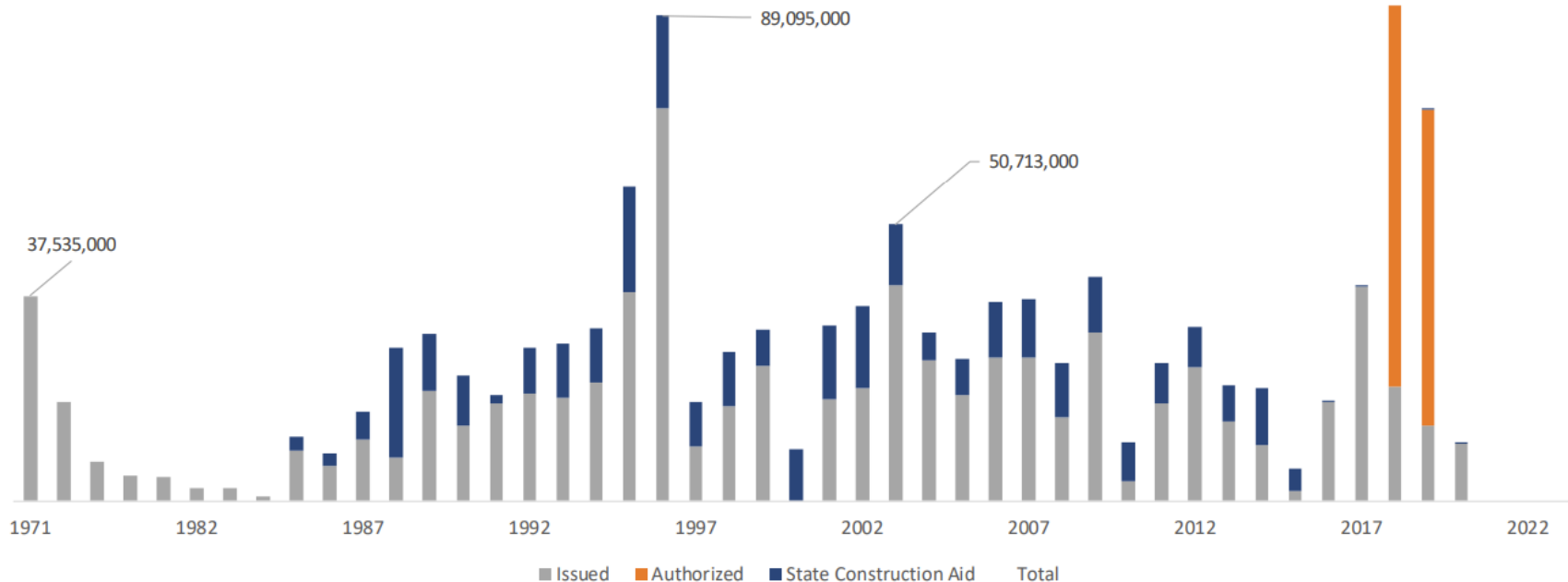
State of Vermont - General Obligation (G.O.) Debt Authorizations FY2000-FY2025 (\$ millions)



School Construction Financing

- 2007, Vermont put a moratorium on state aid for school building construction – committed projects in pipeline at that time took an additional 5 years to pay off
- Estimated need is \$500-600 million (old number from 2020 testimony in House Education Committee – prior to PCB testing)
- Most Vermont schools will utilize the Vermont Municipal Bond Bank (VMBB) for long-term capital. See chart below from VMBB testimony on H.209 of 2020.

NOMINAL VT SCHOOL CONSTRUCTION SPENDING - 1971 TO PRESENT



Sources: VT Bond Bank; JLFO

- Unadjusted dollars
- Exclusively reflects Bond Bank data for issuance activity (i.e. loans through private banks or other sources not part of dataset)
- Bond Bank made \$784.61 million in loans to an estimated 543 projects over past 50 years

Rhode Island Case Study

- **Timeline:**
 - **2011** Rhode Island places moratorium on state support for school construction.
 - **2017** – Rhode Island Dept. of Education releases [“Schoolhouses” report](#) detailing 50,000 deficiencies across 306 public school campuses. Deficiencies related to both health/safety and programmatic.
 - **September 2017** – Treasurer Seth Magaziner co-chairs the Rhode Island School Building Task Force with the Rhode Island Secretary of Education.
 - **Task Force puts forth 3 part plan for upgrading public school buildings across the State**
 - 1) **Incentive plan** – State would temporarily, but substantially, increase level of financial support for projects meeting certain criteria
 - 2) **New policies to control construction costs**
 - 3) **Stronger requirements for school districts to provide adequate maintenance and upkeep of facilities going forward**
 - **2018** – voters approved plan with 76.7% of vote

Rhode Island Case Study

- **\$2.2 billion in funding for 202 school projects in 4 ½ years. Combination of State G.O. bonds (recommended \$500 million over 10 years) and other funding sources including municipal bonds.**
- **\$250 million bond approved in 2018; \$300 million bond is currently before the Rhode Island Legislature.**
- **In addition to the surge of G.O. funding up-front, task force recommended substantial increase in state spending on school repairs (\$80 million per year).**
- **At least 36,000 jobs created since 2018.**
- **Rhode Island had previously used state-level bonding to fund Pre K-12 facilities, but had not had a Pre K-12 bonding proposal to referendum since 1994.**
- **Link to full [Rhode Island Task Force Report](#) (2018) and [Moving Forward: A Progress Report on Rhode Island School Construction](#) (2021).**