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STATE OF VERMONT
OFFICE OF THE STATE TREASURE

TO: Representative Robin Scheu, Chair, House Committee on Appropriations

FROM: Mike Pieciak, State Treasurer

DATE: **February 6, 2025**

RE: Governor's Budget Adjustment Recommend Language Sec. 49(w)(1)

Background

This memorandum serves to detail the history of the language recommended by the Governor in Sec. 49 (w)(1) of the FY2025 Budget Adjustment Act. The Governor's recommended language in this section is as follows:

(w) State Treasurer's Office. In fiscal year 2025, funds are appropriated for the following:

(1) $14,000,000 General Fund is appropriated to existing one-time Dept ID 1260892201 – TRE Bond Redemption per the August 8, 2024 Emergency Board directive.

2022 Act 83, Sec. 53(b)(5)(B) as amended by 2022 Act 185 Sec. C. 102, appropriated $20 million to the State Treasurer to buy down outstanding bonds to save on interest payments and bolster the overall financial health of the state by reducing our outstanding liabilities.

General Overview of State Bonding

Approximately once a year the Treasurer's Office conducts a bond offering to raise money to fund capital projects that have been approved in the Capital Bill. State bonds are issued for a 20-year duration – meaning that annually the state pays a portion of the bond principal and interest owed until those bonds are paid off in the 20th year. Additionally, state bonds are issued with a 10-year "lock out" period – meaning the state cannot redeem or refinance the bonds during the first 10 years after they are issued.

The State of Vermont has approximately $550 million in outstanding bonds.

In practice this creates a complex picture requiring the exercise of informed discretion as to whether or when to redeem bonds early. For example, in 2025, the state will make the final payment on principal and interest owed on bonds issued in 2005. Further, bonds issued between 2016 and 2025 would be in the "lock out" period and unable to be redeemed or refinanced. This means that only bonds issued between

2006 and 2015 are currently eligible to redeem or refinance.[1] That was a period of historically low interest rates, which those bonds' interest rates reflect.

Overview of Recent State Bonding

Since receiving this appropriation, the Treasurer's Office has gone to market twice – first in September 2023 and second in June 2024:

- The September 2023 Bond Offering included $63 million of Series A bonds to raise new money for capital projects and also included $27 million of Series B bonds to refinance bonds from 2013. This refinancing saved the state about $1.3 million in interest payments.

- The June 2024 Bond Offering included $71 million of Series A bonds to raise new money for capital projects and also included $37 million of Series B bonds to refinance bonds from 2014. This refinancing saved the state about $3.7 million in interest payments.

In preparation for both of these bond sales, the Treasurer's Office completed an analysis with the assistance of our financial advisor, Public Resources Advisory Group (PRAG), to predict the interest savings associated with redeeming a selection of callable bonds with the $20 million appropriation. This analysis showed that there would be an interest savings of ~$49,000 or every $1 million spent or ~$1 million in total interest savings.

We did not execute on the $20 million redemption because: (1) we were able to achieve interest savings (a combined savings of $5 million in 2023 and 2024) without using the appropriation; and (2) in light of the high interest rates our cash and short-term investments earn, by simply holding the $20 million we earned about $2 million in interest over two years. In short – we were still able to achieve interest savings through our normal refinancing and earned more in interest by holding those funds than we would have redeeming the bonds, which would have yielded a one-time interest savings of ~$1 million.

Alternative Uses of the Funds

In August 2024, the Emergency Board, properly exercising its powers, borrowed $14 million out of the $20 million appropriation for immediate flood recovery efforts. The Treasurer's Office agreed with this use of the $14 million. The remaining $6 million has remained with the Treasurer's Office, earning strong rates of interest as noted above. The Governor's proposed BAA action is to restore the $14 million to the Treasurer's Office.

At various times our office has suggested there may be alternative uses for these funds that could result in a greater financial benefit to the State and have a more immediate impact. Again, this is an important thought exercise, because the potentially redeemable bonds are at low interest rates.

One such alternative is using $1 million to fund the Medical Debt Relief proposal (H.112 and S.27) that would provide roughly $100 million in medical debt relief for Vermonters. Another would be to support the development of new housing, which will have long-lasting economic benefits. Our office continues to

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[1] The bonds issued in 2005 have since been refunded with newer issues. The principal payments retain their maturity date, but interest is at a lower rate. As such, we are still paying principal and interest on bonds issued in 2005, but they appear as a newer issue. The oldest remaining issue outstanding is from 2012.

believe that, while redeeming bonds would not be an entirely unreasonable use of the money, there may be uses that would result in greater long-term benefits to Vermonters.

If the $20 million were used for an alternative purpose – the $550 million of outstanding bonds would continue to be paid down on their normal, 20-year schedule (with the possibility of refinancing to save interest when the bonds are eligible). These bond payments are funded through the annual debt service appropriation, which comes from the General Fund.

The $20 million was a one-time, out-of-the-ordinary proposed buy down of our outstanding bonds, and if the funds are used for an alternative purpose, the state's outstanding bonds will continue to be paid down in the normal course. Using the bonds for an alternative purpose would have no impact on the state's credit rating. Likewise, there is no obligation to replace these funds in the future, because there is no obligation to redeem bonds early.