Vermont's Capital Budget: Borrowing and Pre-Funding

An Overview for the Senate Institutions Committee
Agency of Administration
1.15.25

- Vermont's capital budget has historically been funded through the issuance of General Obligation (GO) Bonds. At recent historical interest rates, every dollar borrowed to fund capital projects costs taxpayers about $1.50 over the life of a 20-year bond. Annual debt service payments in the GF operating budget have been between $70m-$80m in recent years.

- The amount of GO bonds issued follows the recommendations of the Capital Debt Affordability Advisory Committee (CDAAC), a technical third-party advisory group statutorily charged with determining how much debt the State can prudently issue.

- Vermont's credit ratings were downgraded in 2019 by rating agencies citing demographic, workforce and economic challenges. The State's significant outstanding pension liabilities are another major downward pressure on the State's credit rating. The State's credit rating impacts the cost of borrowing.

- CDAAC's biennial recommendations peaked in FY14-FY15, at just under $160 million. As part of an ongoing effort to reduce the State's overall debt service costs and to reclaim our top credit rating, CDAAC's recommendations have declined steadily over the past decade to the current recommendation of $100 million for FY26-FY27.

- This decline coincides with historic levels of inflation and rising construction costs. From 2014-2024, inflation (CPI) rose by about 35%.

- To continue meeting ongoing capital needs and make needed investments in infrastructure, the State needs a capital bill not solely reliant on borrowing.

- The Cash Fund for Capital Investments was jointly proposed by the Administration and the Treasurer's Office and codified by the Legislature in 2022 as an alternative funding source for capital projects designed to transition the State away from bonding for all capital projects. This is achieved through a statutory annual fund transfer from the General Fund equal to:

  4% of total GF appropriations in the last completed fiscal year,
  less the estimated GF debt service for the current budget year.

- Since the Cash Fund exists to fund capital projects, the Administration believes these appropriations should be made directly in the capital bill and be the jurisdiction of the House Corrections & Institutions and Senate Institutions committee.