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**STATE OF VERMONT**
**OFFICE OF THE STATE TREASURER**

**TO:** Capital Debt Affordability Advisory Committee

**FROM:** Steve Wisloski, Deputy State Treasurer

**RE:** Minutes of Meeting on Thursday, July 19, 2012

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**CDAAC Members Attending**
DAVID COATES, CPA, Managing Partner, KPMG (Retired), and VT Business Roundtable
LAURA DAGAN, CFA, Chairman, Dwight Asset Management (Retired)
ROBERT GIROUX, Executive Director, Vermont Municipal Bond Bank
BETH PEARCE, Chair, Vermont State Treasurer
TOM SALMON, CPA, Vermont State Auditor
JEB SPAULDING, Secretary of Administration
JOHN VALENTE, ESQ., Chair, Vermont Municipal Bond Bank

**Members of the General Assembly**
REPRESENTATIVE MARY HOOPER (Washington), House Institutions and Corrections
REPRESENTATIVE JASON LORBER (Chittenden), House Institutions and Corrections

**Also Attending**
STEVE WISLOSKI, State Treasurer's Office
SCOTT BAKER, State Treasurer's Office
CATHERINE BENHAM, Associate Fiscal Officer, Legislative Joint Fiscal Office
TOM HUESTIS, Managing Director, Public Resources Advisory Group
JOE JUHASZ, Deputy State Auditor
WENDY WILTON, Rutland City Treasurer

## 1. Call to Order, Opening Remarks and Approval of Minutes

Ms. Pearce called the meeting to order at 9:04 a.m. The meeting was held in the 4th Floor Governor's Conference Room, 109 State Street, Montpelier and via telephone conference. **Ms. Dagan motioned, Mr. Giroux seconded, and the Committee unanimously approved the minutes of the September 28, 2011 meeting by voice vote.**

**2. Review and discussion of the 2012 Legislative Session and Capital Bill**

The Committee and legislative attendees discussed the results of the most recent legislative session. Representative Hooper stated that she was impressed with the Administration's capital bill proposal and the Legislature's response, and Treasurer Pearce concurred.

Treasurer Pearce highlighted some of the contents of the capital bill, including the adoption of a 2-year appropriation process going forward, a six-year capital planning process, and the requirement that agencies receiving capital bill funds report progress on their projects to Buildings and General Services by October 15. Mr. Spaulding noted that the CDAAC proposed the 2-year appropriation back in 2010, and he complimented the Legislature for staying within the recommendation especially in light of potential financing needs driven by Tropical Storm Irene. Treasurer Pearce also noted that the CDAAC, and especially Secretary Spaulding and Auditor Salmon, had long advocated for a multi-year capital planning process.

Treasurer Pearce also reviewed several technical changes, introduced in the legislative session just completed, including the use of bond premium for capital projects, which reduces the par amount of bonds sold and increases future debt capacity, as well as changes to assist with private use compliance, and to provide additional oversight of private activity bond issuance by out-of-state bond issuers.

**3. Review and discussion of Vermont Bond Ratings, Moody's 2012 State Debt Medians, and Moody's U.S. State Debt Service Ratio Reports**

Mr. Wisloski reviewed the rating reports from the three rating agencies in connection with the State's most recent bond sale in March. Vermont's general obligation (full faith and credit) bond ratings currently are Aaa from Moody's and AAA from Fitch, both of which are the highest ratings, and AA+ from Standard and Poor's, the second-highest rating, all with stable outlooks. Mr. Wisloski noted that the rating agencies cite Vermont's capital debt affordability planning process as a credit positive, in addition to strong financial management, diverse revenue sources and rapid amortization of bond principal. In addition, Vermont has not used cash flow borrowing since 2003, and the State's very strong cash balances enable it to advance payments to cities and towns after Tropical Storm Irene. He noted that pension and OPEB liabilities were the most significant area for improvement. Vermont also faces demographic challenges, as it is the second-oldest state.

Mr. Spaulding noted that the Standard and Poor's ratings report listed Vermont's 2010 personal income at 98% of the national average, stated that he believed Vermont was now above-average, and requested that the Treasurer's Office staff follow up with S&P.

Mr. Wisloski reviewed Moody's inaugural U.S. State Debt Service Ratios report, which compares states' ratios of annual debt service (bond principal and interest payments) to overall revenues; this is comparable to the "debt service as a percent of revenue" ratio in the CDAAC Report. He noted that per statutory requirement, the CDAAC Report only includes general fund and transportation fund revenues; however Moody's also includes the education fund. As such, the CDAAC Report's calculation is considerably more conservative than Moody's. Specifically, the 2011 CDAAC Reports listed the ratio as 5.7% for 2010, whereas Moody's list 3% for that year. Moody's ranks Vermont 38th out of 50 (50 being the lowest or best ratio). Secretary Spaulding recalled that Vermont was in the top 10 (i.e., much worse) in the mid-1990's. Treasurer Pearce said her office would send a historical chart showing Vermont's progress.

Finally, Mr. Wisloski reviewed Moody's 2012State Debt Medians Report. He said that, as discussed during last year's CDAAC meetings, Vermont likely faces a challenge from the severe reduction in 2011 bond issuance. This drop-off was due both to states accelerating bond issuance in 2010 to take advantage of the expiring Build America Bonds program, and to states reducing debt issuance in 2011 due to economic uncertainty. Vermont benchmarks against a five-year average increase in the median debt per capita of its triple-A rated peer states, so a sharp reduction in issuance could impact the debt projection model. Vermont also slipped slightly to 34th in debt per capita, from 37th in 2011, but maintained its position at 36th in debt as percent of personal income. Moody's expects continued reduced bond issuance going forward; Treasurer Pearce stated that we must exercise caution going forward, and that we must live within our means.

Treasurer Pearce stated that the State said spoke with the three rating agencies on July 10 regarding the upcoming sale of $10 million of Transportation Infrastructure Bonds; these bonds will leverage an additional $51 million of federal funds toward bridges and other critical infrastructure. She also mentioned that the October general obligation bond sale may be accelerated out of concerns regarding the outlook for the financial markets, and to increase the chance of locking in current record-low interest rates.

**4. Discussion of work plan for 2012, including pensions, Waterbury Office Complex rehabilitation and State Hospital replacement, capital planning and cash flow modeling**

Secretary Spaulding suggested inviting the BGS Commissioner to the next meeting. He stated that the two big pieces resulting from the devastation of the Waterbury Office Complex are:

1. Rehabilitation of the complex in Waterbury in order to get away from leased spaces. The most recent plan consolidates most of AHS at the Waterbury Complex. The Health Department would remain in Burlington. The current price tag of $125 million is high, and the Administration has not yet committed to moving forward with that plan.

2. Replacement of the Vermont State Hospital. This is an estimated cost of $45 million.

Including the Agriculture Lab, the estimated total cost is $180 million, with insurance expected to range from $15-20 million. Mr. Spaulding also noted that funding levels from FEMA were uncertain, and should be known in several weeks, but could vary widely. In the worst case, funding could be considerably less than anticipated, and causing considerable capital bill financing requirements.

Mr. Coates asked if they had looked at privatizing the state hospital. Secretary Spaulding said yes, and while the 14 beds in Brattleboro and 10 beds in Rutland would be privately run, the Governor and Legislature agreed that it is important for the State to own and operate the proposed facility in Berlin.

Mr. Wisloski said that the Committee has to deliver their annual report to the Administration and the Legislature by Friday, September 28th. He recommended that we convene one meeting to formulate the report and a second meeting to review any changes.

Treasurer Pearce said that they reached out to Finance and Management to estimate expected spending against current Capital Bill projects, and hopes to have an idea of the cash flows for these projects by August 20th. She noted there is about $5.9 million of authorized-but-unissued debt from prior-year Capital Bills (2010 and earlier), and reiterated that we should live within our means. Secretary Spaulding said that the Governor agrees.

The Committee reviewed proposed deliverables for the next meeting:

1. Update the debt ratios and capacity scenarios with the most recent data
2. Update the cash flow projections for existing projects
3. Latest outlook for the Waterbury Office Complex and State Hospital
4. Discuss GASB 68 and the effect on pension reporting

Mr. Coates said that we should look at GASB Pension Statement No. 68 to determine what it means to the State, and see what the ramifications are. Treasurer Pearce said that we need to build pension data into the five year model, and suggested the Committee needed to spend a good part of one meeting looking at the pensions.

Representative Hooper asked how we established our “peer group”. Mr. Wisloski said that it consists of (18) states which carry at least one AAA rating. We also look at the triple AAA states (currently 8 or 9). We also look at the debt per capita multiplier.

Mr. Huestis suggested that we look at statistics and outline assumptions at the next meeting. It was agreed that there should be a meeting on the week of August 20th, followed by a meeting to review the first draft of the report, and another for the near final draft.

## 5. Other Discussion Items

Mr. Wisloski noted that the Treasurer’s Office is concerned that the political climate and fiscal outlook for the United States is an area of concern, given the likelihood of policy inertia in the lead-up to the presidential election, the approaching debt ceiling, potential federal budget rescissions, and expiration of both the Bush tax cuts and payroll tax holiday. These external factors and any resulting impacts on the federal government’s bond rating could adversely impact Vermont.

## 6. Public Comment

Treasurer Pearce provided time for public comment. No comments were received.

**Mr. Coates motioned, Mr. Valente seconded, and the Committee unanimously voted to adjourn the meeting at 10:47 a.m.**