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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, September 13, 2012

CDAAC Members and Designees Attending
DAVID BEATTY, Finance & Management Budget Analyst (designee of JEB SPAULDING)
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
JOE JUHASZ, Deputy State Auditor (designee of TOM SALMON)
BETH PEARCE, Chair, Vermont State Treasurer
JOHN VALENTE, ESQ., Chair, Vermont Municipal Bond Bank

Members of the General Assembly
REPRESENTATIVE MARY HOOPER (Washington)

Also Attending
STEVE WISLOSKI, Deputy State Treasurer
CATHERINE BENHAM, Associate Fiscal Officer, Legislative Joint Fiscal Office
TOM HUESTIS, Senior Managing Director, Public Resources Advisory Group
CHRISTINE FAY, Vice President, Public Resources Advisory Group

1. Opening remarks and approval of minutes

Ms. Pearce called the meeting to order at 2:00 p.m., welcomed the participants and thanked the Committee members for their time and commitment to the debt affordability planning process. The meeting was held in the Treasurer's Conference Room, 109 State Street, 4th Floor, Montpelier, and via conference call.

Mr. Valente motioned, Mr. Giroux seconded, and the Committee unanimously approved the minutes of the August 22, 2012 meeting.

Ms. Pearce urged that notwithstanding possible capital requirements, and especially those related to the State Hospital and the Waterbury State Office Complex, the Committee's debt affordability recommendation should be driven by known variables and the State's debt capacity. She emphasized that any additional capital needs would first be addressed by a rigorous review of current projects and priorities, unissued debt, unspent proceeds, cash on hand and all other available resources.

2. Review of proposed methodology adjustments and revised scenarios

Mr. Wisloski and Mr. Huestis reviewed proposed adjustments to the debt per capita (DPC) methodology. For all of the scenarios presented, the 5-year median DPC starting point in 2012 was adjusted from the median of the 5 years of medians from 2008 through 2012 to the average of those 5 years of medians; the DPC inflator was adjusted from the 5-year average of annual increases (from 2007-2008 through 2011-2012) in the median DPC of the triple-A peer states to the 10-year average (from 2002-2003 through 2011-2012); the adjustment to the DPC inflator (introduced in the 2009 CDAAC Report) was increased from 60% to 100%; and the interest rate assumption on future bonds was adjusted from a flat 6.00% coupon to a term structure that started at 3.00% in 2013 and increased 0.50% each year to 6.00% in 2019, and then continued at 6.00% through 2023. Mr. Wisloski noted that the change to the interest rate assumption did not affect DPC or debt as a percent of personal income, but did reduce debt service as a percent of revenues.

Mr. Wisloski and Mr. Huestis then presented four scenarios, summarized as follows:

Scenario 1, which incorporated the above adjustments and resulted in a $158.46 million 2-year recommended authorization for FY2014-15, an increase of $5.30 million from last biennium. The starting DPC for this scenario was $892 and DPC inflator was 3.32%.

Scenario 2, which was identical to Scenario 1 but removed the top two and bottom two DPC data points in the triple-A states peer group in each year to remove outliers to attempt to reduce peer group volatility. This resulted in a $159.90 million 2-year recommended authorization for FY2014-15, an increase of $6.74 million from last biennium. The starting DPC for this scenario was $893 and DPC inflator was 3.38%.

Scenario 3, also identical to Scenario 1 but removed states with fewer than two triple-A ratings from the peer group in each year. This scenario resulted in a $159.19 million 2-year recommended authorization for FY2014-15, an increase of $6.03 million from last biennium. The starting DPC for this scenario was $891 and DPC inflator was 3.38%.

The fourth scenario was also Scenario 1, but with all 6.00% coupons consistent with the prior methodology. This increased the debt service as a percent of revenues by between 0.2% and 0.4% in each year from 2014 to 2023, ending at 5.1% compared to 4.9% (0.2% higher) in 2023.

Ms. Pearce solicited comments to the proposed adjustment and resulting scenarios from the Committee members and designees. Mr. Beatty, Mr. Giroux, and Mr. Juhasz all indicated that they liked the change to a 10-year average for the DPC inflator, and Mr. Juhasz indicated a preference for Scenario 1 to avoid the appearance of picking and choosing peer group members. Mr. Giroux and Mr. Valente also indicated that they liked the term structure approach to interest rates, versus the flat 6.00% assumption. Ms. Dagan indicated that she liked the 10-year average and the term structure, but wanted to see a quantitative approach or a range applied to the determination of the adjustment to the DPC inflator, and Mr. Valente concurred. Mr. Coates also indicated that he agreed with the 10-year averaging approach, and concurred with Mr. Juhasz about avoiding the appearance of picking and choosing peer group members.

Mr. Valente motioned, Ms. Dagan seconded, and the Committee unanimously voted to recommend $158,460,000 as the estimate of the maximum amount of new long-term net State tax-supported debt that prudently may be authorized for 2-year period for fiscal years 2014 and 2015.

3. Review of 2011 CDAAC Report, recommended updates, and new discussion items

The Committee reviewed the 2011 CDAAC Report and identified sections that could be removed, updated or added, and which parties would be responsible for drafting the various changes.

Mr. Pearce recommended and the Committee agreed that the Treasurer's Office would work with the legislature to create guidelines for greater due diligence in the moral obligation approval process. Updates were also discussed for transportation infrastructure bonding (TIBs) capacity and information technology infrastructure financing. The Committee also agreed to update recent events discussions regarding Tropical Storm Irene, the credit ratings outlook for the United States, pension and OPEB liabilities, and treatment of "authorized but unneeded" prior-year bonding capacity due the statutory change allowing use of bond premium to pay for capital projects.

4. Public comment and adjournment

Ms. Pearce asked whether any members of the public in the meeting or attending on the phone wished to comment; none did.

Ms. Dagan motioned, Mr. Valente seconded, and the Committee unanimously voted to adjourn the meeting at 3:36 p.m.