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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

December 1, 2015

The Honorable Peter Shumlin
Pavilion Office Building
109 State Street
Montpelier, VT 05609-0101

Dear Governor Shumlin:

This letter provides the annual report of the activities of the Private Activity Bond Advisory Committee (the "Committee") during 2015, and includes its recommendations both to the Emergency Board regarding the allocation of Vermont's private activity bond ceiling for 2016, and to the Governor regarding reallocations of 2015 bond ceiling (32 V.S.A. § 994(b)).

Early in the year, the Committee coordinated with representatives of the Vermont Housing Finance Agency (VHFA), the Vermont Municipal Bond Bank (VMBB) and the Vermont Student Assistance Corporation (VSAC) to ensure that IRS Forms 8328 were filed to carry forward volume cap from 2014. The Committee convened a meeting on July 22 to survey the need for any recommended reallocations of 2015 volume cap to the Emergency Board in connection with its July meeting, and recommended that the Emergency Board delegate to the Governor the ability to reallocate volume cap, without limitation, to and among Vermont's four constituted and eligible issuing authorities (VEDA, VHFA, VMBB and VSAC) for the remainder of 2015.

The Committee convened a second meeting on November 20 to discuss 2015 volume cap re-allocation and 2016 initial allocation recommendations with the constituted and eligible issuing authorities. The Committee also reviewed new guidance from the Internal Revenue Service that clarified that PABs can be used both to finance student loans taken out by parents on behalf of their children, and to refinance other student debt, including Federal loans. Finally, the Committee discussed and voted to recommend that the General Assembly dissolve the Committee during the 2016 Legislative Session, and amend State statute to provide procedures for allocation and reallocation of PAB volume cap among constituted Vermont issuing authorities. A discussion of the rationale for this recommendation is included below, and draft proposed legislation to this effect is attached hereto.

Recommended Initial Allocation of 2016 Volume Cap
It is the Committee's understanding, from IRS Revenue Procedure 2015-53 regarding the amounts used under IRC § 146(d)(1) to calculate the State ceiling for volume cap for private activity bonds, that Vermont's ceiling for 2016 is $302,875,000. At its meeting of November 20, the Committee reviewed a survey of the constituted and eligible issuing authorities, and unanimously voted to recommend the following initial allocation for 2016:

Vermont Housing Finance Agency (VHFA):	$0
Vermont Student Assistance Corporation (VSAC):	0
Vermont Economic Development Authority (VEDA):	42,500,000
Vermont Municipal Bond Bank: (VMBB)	20,000,000
Contingency:	240,375,000
TOTAL	$302,875,000

With respect to the VMBB's allocation, the Committee also recommends that the Emergency Board grant VMBB the authority to assign and re-assign a portion or all of that apportionment to one or more governmental units, as defined in 24 V.S.A. § 4551, that are recipients of bond proceeds issued by VMBB during calendar year 2016.

Recommended Reallocation of 2015 Volume Cap

The Committee also unanimously voted to recommend the following final allocations of 2015 ceiling to the Governor, with reallocations between issuing authorities and from contingency as necessary, after December 20, and on or before December 31, 2014:

VHFA:	$146,778,623
VSAC:	146,778,623
VEDA:	1,882,754
VMBB:	0
Cold Brook Fire District No. 1	6,075,000
TOTAL	$301,515,000

These reallocations are necessary to ensure that unused volume cap from 2015 is carried forward for the allowable three-year period under the IRS guidelines.

Rationale for Recommending Dissolution of the Committee

The Committee was originally created on November 2, 2011 by Executive Order No. 14-11, and was enacted in State statute on May 8, 2012 by Act No. 110. The rationale for the Committee was to explore possible alternative uses for Vermont's private activity bond volume cap, given the dramatically reduced utilization by VSAC and VHFA, which historically had been the largest and second-largest issuing private activity bond issuing agencies, respectively. In the absence of issuance by these agencies, the majority of Vermont's annual allocation of private activity bond volume cap – which provides lowered borrowing costs through tax-advantaged treatment of bond interest – was expected to expire unused.

Shortly after the Committee was created, the Treasurer's Office and VEDA commissioned the State's bond counsel firm, Edwards Wildman LLP, to provide specific legal guidance as to permitted uses of private activity bonds, which was widely disseminated to the public and also and posted on the Treasurer's website. The Committee also broadly solicited ideas from members of the public, governmental, non-profit and private corporations, and regional development agencies. Over the next several years, the Committee and Treasurer's Office staff reviewed numerous proposals and considered many possible alternative uses for Vermont's volume cap.

Ultimately, however, the Committee realized that the IRS limitations on private activity bonds were too prohibitive, or the potential interest cost savings too small given the sustained ultra-low interest rate environment, the relatively small size of Vermont projects, and the need to maintain administratively burdensome ongoing "post issuance" tax compliance while bonds were outstanding.

Finally, the Committee determined that the existing duly constituted issuing agencies provide robust mechanisms for private activity bond financing to eligible entities; specifically, corporations and not-for-profits can access private activity bonds through VEDA, and municipalities and similar governmental entities can access private activity bonds through VMBB.

If the Governor and General Assembly concur with the Committee's recommendation to discontinue its activities, the Treasurer's Office proposes to manage the State's annual private activity bond allocation process going forward, including coordinating with the Secretaries of Administration and Commerce, VSAC, VHFA, VEDA, VMBB and interested parties to make recommendations regarding allocations and reallocations to the Emergency Board, to maintain policies and procedures regarding the allocation process, to coordinate carry-forwards of unused volume cap, and other related duties as required.

Please contact me at beth.pearce@vermont.gov or 828-1452, or my Deputy, Steve Wisloski, at stephen.wisloski@vermont.gov or 828-5197 with any questions regarding this memorandum.

Respectfully,

Elizabeth A. Pearce
State Treasurer

Attachment: Draft legislation to dissolve PAB Advisory Committee

cc: Private Activity Bond Advisory Committee
Sarah Carpenter, Vermont Housing Finance Agency
Bob Giroux, Vermont Municipal Bond Bank
Steve Greenfield, Vermont Economic Development Authority
Tom Little, Esq., Vermont Student Assistance Corporation
J. Paul Giuliani, Esq., Primmer Piper Eggleston & Cramer PC
Steve Klein, Legislative Joint Fiscal Office

Proposed Draft Legislation to Dissolve the Private Activity Bond Advisory Committee

32 V.S.A. § 994 is amended to read:

§ 994. Recommendation regarding private activity bond volume cap ~~Advisory Committee~~

The Treasurer shall, in coordination with the Secretary of Administration, the Secretary of Commerce and Community Development, and constituted Vermont authorities eligible to issue private activity bonds including the Vermont Student Assistance Corporation, the Vermont Housing Finance Agency, the Vermont Economic Development Authority, and the Vermont Municipal Bond Bank:

(a)~~(1) Creation; composition. There is created a Private Activity Bond Advisory Committee, which shall consist of the following members:~~

~~(A) the State Treasurer or his or her designee;~~

~~(B) the Secretary of Administration or his or her designee;~~

~~(C) the Secretary of Commerce and Community Development or his or her designee;~~

~~(D) two members who shall be representatives of the public, appointed by the Governor.~~

~~(2) Each public representative shall serve for a two-year term beginning February 1, or until his or her successor is appointed. The terms of the public representatives shall be staggered so that only one member's term expires in each year.~~

~~(3) The State Treasurer or designee shall serve as Chair of the Committee.~~

~~(4) The Office of the State Treasurer shall provide administrative support to the Committee.~~

~~(5) Public representatives may receive reimbursement of expenses and per diem compensation pursuant to section 1010 of this title.~~

~~(b) Committee charge.~~

~~(1) The Committee shall~~ annually survey the expected need for private activity bond allocations and provide recommendations to the Emergency Board prior to its meetings.~~among constituted and eligible issuing authorities empowered to issue such bonds on an annual basis.~~

(b)~~(2)(A) The Committee shall develop~~ maintain guidelines for allocation of private activity bonding capacity designed to maximize the availability of tax exempt financing among various sectors of the Vermont economy with a focus on economic development, housing, education, redevelopment, public works, energy, waste management, waste and recycling collection, transportation, and other activities that ~~the Committee determines will~~ benefit the citizens of Vermont~~.~~ which

~~(B) The~~ guidelines should support efforts and entities that increase the number of good-paying jobs in the State, promote economic development, support affordable housing, and affordable access to postsecondary education and training, and encourage the use of Vermont's human and natural resources in endeavors that maximize Vermont's comparative economic advantages, and be flexible enough to include new and innovative uses of private activity bonds, consistent with federal regulations and the Internal Revenue Code.

~~(3) The Committee shall meet at least annually and shall hold at least one public hearing prior to submitting its recommendations to the Emergency Board. The Committee shall further submit its recommendations in an annual report of its activities to the Governor and the General Assembly.~~

(c)~~(4) O~~on or before December 1 of each year, ~~the Committee shall~~ make recommendations to the Emergency Board on the allocation, including any amounts reserved for contingency allocations, of the State's private activity bond ceiling for the following calendar year to and among the constituted issuing authorities empowered to issue such bonds.

(d)~~(5) On its own initiative~~ as required, or at the request of the Governor or ~~at the request~~ of the Emergency Board, ~~the Committee may~~ make recommendations to the Governor or Emergency Board concerning assignments or reallocation of any unused portion of the ceiling subsequent to an allocation by the Emergency Board in a given year. (Added 2011, No. 110 (Adj. Sess.), § 1, eff. May 8, 2012; amended 2013, No. 1, § 98.)