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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

To: House Committee on Appropriations
House Committee on Commerce and Economic Development
House Committee on Ways and Means
House Committee on Government Operations

Senate Committee on Appropriations
Senate Committee on Economic Development
Senate Committee on Housing and General Affairs
Senate Committee on Finance
Senate Committee on Government Operations

Date: January 15, 2015

From: Beth Pearce, State Treasurer

RE: Report on the Findings and Recommendations Required by Section. 220 of Act 199 of 2014

During the 2013-2014 Legislative Session, Senators Pollina, Ayer, French, McCormick, White and Zuckerman sponsored S.204, "An Act Relating to the Establishment of the 10 Percent in Vermont Program." Elements of the bill were ultimately included in a comprehensive Economic Development bill signed into law (Act 199 of 2014, S.220). The legislation authorized the use of up to 10 percent of the State's average daily cash balance to be disbursed for local investments at the Treasurer's discretion, with recommendations from the Local Investment Advisory Committee (LIAC). Investments must meet established fiduciary standards applicable to the duties of the Treasurer. While the LIAC will continue its activities through June 30, 2015 it is also charged with submitting a report to the General Assembly on January 15, 2015. The report, which follows, includes:

- The amount of the subsidies associated with lending through each credit facility authorized by the General Assembly and established by the Treasurer;
- Description of the Advisory Committee's activities; and
- Any information gathered by the Advisory Committee on the State's unmet capital needs, and other opportunities for State support for local investment and the community.

The LIAC has met nine times since its formation and has received input from over 80 municipal, housing, energy, transportation and education funding experts and concerned citizens. I want to thank the efforts of the LIAC committee members for all of their hard work:



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- Sarah Carpenter, Vice Chair, Executive Director, Vermont Housing Financing Agency
- Peter Adamczyk, Secretary, Energy Finance and Development Manager, Efficiency Vermont Designee
- Steve Greenfield, Chief Operating Officer, Vermont Economic Development Authority
- Bob Giroux, Executive Director, Vermont Municipal Bond Bank
- Tom Little, Vice President and General Counsel, Vermont Student Assistance Corporation Designee

I also want to thank Steve Wisloski, Deputy State Treasurer, and Tim Lueders-Dumont, Executive Assistant, for their significant policy contributions to this effort.

Throughout this effort I have been have been privileged to work with this diverse group of top professionals. The following recommendations and findings represents the Vermont way of getting things done—a collaborative approach to identifying issues, challenges and finding potential solutions and recommendations to the General Assembly.

I look forward to continuing to work with the legislature to identify opportunities to promote local investment and economic prosperity. There are many challenges ahead, but with our shared commitment, I am confident we will meet our mutual goals.

Sincerely,

Beth Pearce
State Treasurer
Chair, Local Investment Advisory Committee



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Introduction and Current Status of Local Investments

In November 2012, the Treasurer’s Office convened a capital gaps/local investment working group to identify areas where capital was not matched to needs and then take steps to address these barriers with substantial proposals. This group met regularly over the next two years and included members of the Vermont General Assembly, Vermont Economic Development Authority, Vermont Housing Finance Agency, staff from the Gund Institute, Montpelier Community Development, Vermont Municipal Bond Bank, Vermont Student Assistance Corporation, Vermont Bankers Association, Efficiency Vermont, NeighborWorks of Western Vermont, and many others. A number of successful proposals were developed as a result. These successes lead to an expansion of the program with the mandate to invest “up to 10 percent of the State’s average cash balance on terms acceptable to the Treasurer consistent with the provisions of the Uniform Prudent Investor Act, 14A V.S.A. chapter 9.” (Section 23, Act 199 of 2014). As a result of the adoption of Act 199, The Working Group was provided additional structure and codified as the Local Investment Advisory Committee with the following membership:

- the State Treasurer or designee;
- the Chief Executive Officer of the Vermont Economic Development Authority or designee;
- the Chief Executive Officer of the Vermont Student Assistance Corporation or designee;
- the Executive Director of the Vermont Housing Finance Agency or designee;
- the Director of the Municipal Bond Bank or designee; and
- the Director of Efficiency Vermont or designee

As with the predecessor working group, the Advisory Committee was structured to assure significant input from subject matter experts and the community. The Advisory Committee was specifically charged to “ invite regularly State organizations, citizens groups, and members of the public to Advisory Committee meetings to present information on needs for local investment, capital gaps, and proposals for financing; and to consult with constituents and review feedback on changes and needs in the local and State investment and financing environments. (Sec 24, Act 199 of 2014)”

To date, the Treasurer has commitments of \$25 million in local investments/credit facilities, of which just over \$14 million has been deployed to date as displayed in Attachment #1. All loans/investments created by these facilities are to be repaid to the Treasurer’s Office with interest and appropriate reviews have been taken consistent with ongoing investment standards utilized by the Treasurer’s Office. A brief description of the various initiatives follows:

- An increase in the Treasurer’s Office current loan commitment to the Vermont Community Loan Fund from \$200,000 to \$500,000. The funds were dedicated to support VCLF’s child care loan program. This, in turn, will provide child care subsidies, including services to lower income households and support jobs in the early education and child care industry.



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- A legislative change was adopted to extend a line of credit from the Treasurer's Office to VEDA to support their activities including commercial energy efficiency and renewable energy capacity. This will lower VEDA's reliance on outside investment bank financing and lower the cost for entities financing through VEDA, supporting Vermont jobs and economic development, with a significant focus on commercial energy. The Treasurer's Office is committed to provide up to \$10 million in financing at terms acceptable to the Treasurer and with a guaranteed repayment. In other words, The Treasurer's Office leveraging state dollars to promote economic development and our energy goals at no risk to the taxpayer.
- In addition to the \$10 million commitment to VEDA, a residential energy credit facility was implemented with a maximum commitment of \$6.5 million. The loan programs leverage capital through a public-private partnership to help businesses save energy.
- \$2 million has been committed to NeighborWorks of Western Vermont that has implemented a statewide residential energy efficiency program. NeighborWorks is drawing these dollars down as they complete residential efficiency agreements. NeighborWorks' portfolio of energy efficiency retrofits is estimated to reduce annual carbon emissions by more than 5,300 pounds annually for an average annual cost savings of \$1,000 per household.
- The Treasurer's Office and the Local Investment Working Group also worked with VHFA on a multi-family energy financing strategy and provided \$2.8 million for VHFA's 2014 Multifamily Bond transaction, which involved financing for 329 housing units. The \$2.8 million financed 12 multi-family projects, including energy efficiency improvements representing 111 units of housing at Wright House in Shelburne and Bardwell House in Rutland. As part of the agreement, the State also provided its moral obligation to support bonds which will, among other things, fund rehabilitation and efficiency improvements at Rail City in St. Albans and Richmond Terrace in Rutland.
- Approximately \$1.7 million in residential energy efficiency capacity is available for commitment to reach the \$6.5 million total. The LIAC Committee expects to begin allocating these in the coming year.
- Up to \$8 million has been allocated, pursuant to the 2014 Capital Bill (Act 178 of 2014, Section 41) to create a state energy revolving fund. The loans will be used to make cost-effective energy improvements that focus on bringing older State buildings up to Energy Star standards or better. Improvements could save the state between 5% to 10% on its energy bills. Individual projects are reviewed for technical specifications as well as a financial review to assure that the necessary savings can be generated. The first such proposal is currently under review.
- In addition to the direct investments noted above other actions have been taken to stimulate local investment. These include: (1) the adoption by the Legislature of a recommendation increasing the moral obligation authority for VEDA by \$15 million, (2) the application of existing moral obligation authority to the VHFA multi-family financing



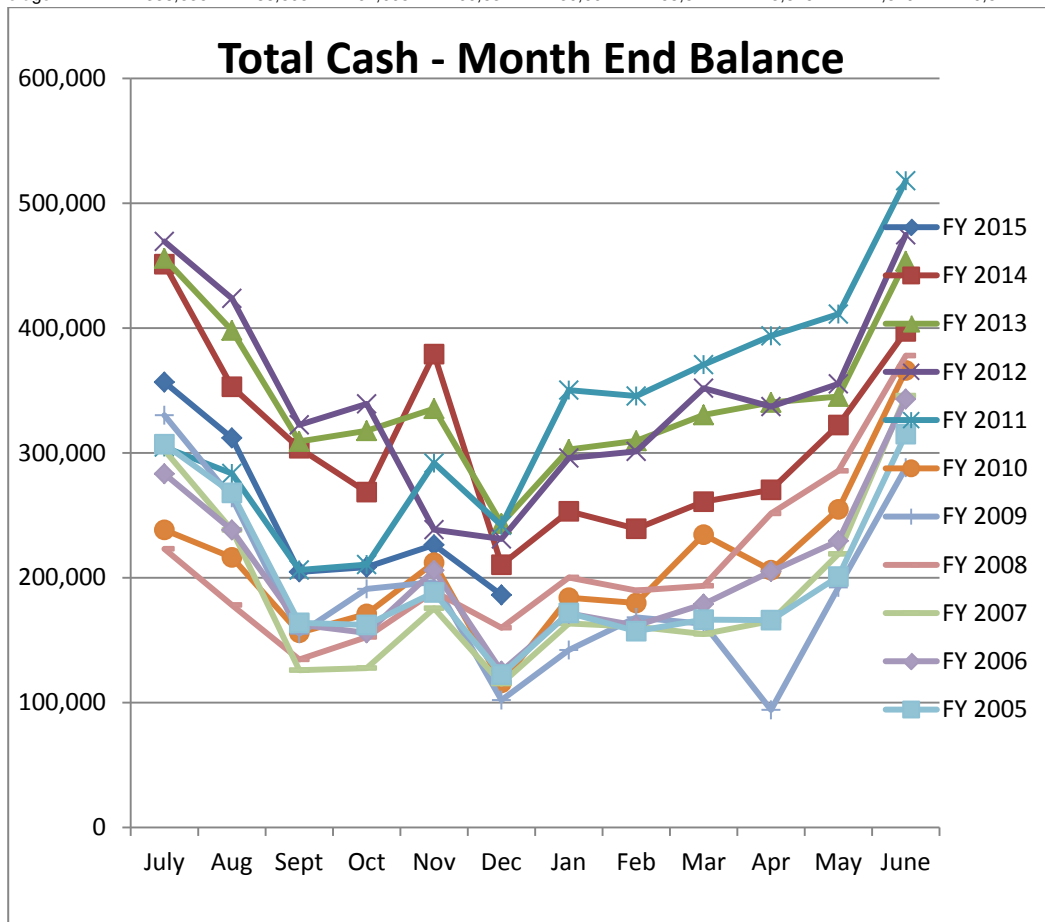
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taken in conjunction with the energy initiatives cited above, and (3) the development of a loan program, for public and private groups, to develop electric vehicle charging stations using funds from the State Infrastructure Bank, to be administered by VEDA.

Remaining Capacity and Investment Parameters

Act 199 of 2014, permits the Treasurer to obligate up to 10% of the State’s average cash balance, including all other credit facilities noted above. The Treasurer is working with the assumption of just over \$8 million in remaining capacity at this time, including the \$1.7 million from the residential energy program. This is based on the cash position experienced in FY2014 and trends to date.

	Total Cash at Month End by Fiscal Year											
	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
FY 2015	356,664	312,018	204,613	208,468	226,328	186,196						
FY 2014	451,133	352,986	303,793	268,633	379,198	210,413	253,250	239,247	260,878	270,419	322,392	397,373
FY 2013	455,810	398,142	309,128	317,680	335,401	243,397	302,682	309,674	330,375	340,467	345,171	453,447
FY 2012	469,367	423,749	322,424	339,293	238,565	231,029	295,941	301,147	351,852	337,127	355,256	474,626
FY 2011	304,685	283,560	206,162	210,607	291,831	241,965	350,356	345,497	370,728	393,772	411,138	517,941
FY 2010	238,361	216,382	155,935	171,018	212,150	115,835	184,003	179,814	234,468	206,011	254,762	366,060
FY 2009	330,146	264,034	155,145	191,042	196,622	101,974	142,038	168,199	163,151	94,131	192,240	288,057
FY 2008	223,055	178,125	134,486	152,450	189,068	159,909	200,184	189,802	193,561	251,487	285,668	377,883
FY 2007	302,199	238,251	125,996	127,647	175,515	115,177	163,358	160,822	154,913	165,284	218,990	345,751
FY 2006	283,267	238,309	162,496	155,869	205,966	125,214	171,493	161,727	178,894	205,052	229,566	343,079
FY 2005	307,014	267,981	163,880	162,203	188,269	122,544	171,856	157,257	166,449	166,056	200,961	315,096
Average	338,336	288,503	204,005	209,537	239,901	168,514	223,516	221,319	240,527	242,981	281,614	387,931





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The above balances are also somewhat volatile with some seasonal peaks and lows. Any local investments made through the above programs needs to take into consideration the need to have ample cash to meet the state’s obligations during the “low” periods. Accordingly, maturity periods must be kept somewhat conservative for the investment portfolio.

While the above chart identifies month end-points, the Treasurer’s Office also tracks the average cash position which impacts the total amount available for investment. In FY 2013, this averaged \$352 million, given this figure the total capacity of available cash would be approximately \$10 million over the existing commitments. In FY 2014, however, this dropped to \$315 million, reducing the capacity to roughly \$6.5 million plus the \$1.7 million committed to energy efficiency for a total of \$8.2 million. We are currently tracking FY 2015 balances and see some potential for further reduction as well as the possibility of reallocation of existing commitments to optimize cash flow.

As a consequence of both the total available dollars and the nature of the cash flows, the Treasurer’s Office is recommending that a portion of the invested dollars be kept very liquid, under one year with a maximum maturity of no more that 10 to 12 years. While we recognize the need for local investment, the liquidity needs for state disbursements must also be met. These parameters limit the uses of local investment dollars available through this program. Later in the report, the LIAC has provided a matrix for several areas of potential need, including capital gaps outside of the parameters that can be met with these dollars. We hope this information will spur additional discussion of ways to address these gaps.

Process and Next Steps

The LIAC agreed that first steps would be to conduct a public hearing on various investment needs and, based on the results, identify four to five areas on which to focus its efforts. A hearing was conducted on August 21, 2014, with a variety of stakeholders identifying needs for local investment. On the basis of this hearing and data previously conducted through the predecessor Local Investment Working Group, the LIAC voted to concentrate its efforts in four areas:

- Housing and Energy
- Transportation
- Municipal Infrastructure, wastewater and commercial development
- Financing post-secondary education

The LIAC then held meetings on each of these topics. An expert panel presented on each issue with stakeholders invited to comment. The structure of these meetings included the following outline, which subsequently became the basis for the findings included in the report:

- Existing Sources
- Capital gaps
- Issues that create barriers to capital reaching needed areas including:



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- Regulatory issues/concerns
- Transaction terms (size, maturity period, etc.)
- Educational, organizational, administrative barriers
- General barriers

The above resulted in general discussion of potential areas for investment. The LIAC has announced to participating stakeholders (and will undertake further announcements) that it will receive proposals in the four areas noted above beginning February 2, 2015 and ending March 2, 2015.

These proposals will be reviewed by the LIAC and recommendations made to the Treasurer. The Treasurer's Office will make a further determination based on fiduciary responsibilities consistent with existing statute with the objective of committing remaining capacity by June 30, 2015. The Treasurer's Office and the LIAC anticipates additional discussion with the House and Senate Committees on Economic Development to further this process.

Additional Recommendations

Please note, the LIAC process pertains to the investment of dollars associated with the 10% in Vermont program. In the course of the Committee's review, the LIAC identified additional areas of need that would not be met by this investment solution. These areas are outlined below:

- There is a need for long-term fixed-rate debt beyond the 10-12 year limitations associated with the assets available for this program. For example, many of the housing needs require 30-40 year fixed rate debt. As noted, much of the need cannot be met by debt alone, but would require grants or equity capital. For instance many of the municipal infrastructure improvements, wastewater systems, and drinking water systems projects were originally constructed with federal grants that are no longer available.
 - Gap capital in the form of equity is still in need especially in the area of housing.
 - There is a continued need to provide incentives to encourage all investors (banks, insurance companies, corporations, high-wealth individuals) to invest directly with state issuing agencies—purchase, bonds, debt, and tax credits.
 - In the area of education, the Committee notes that the interest rate for federal education loans is above market rates. The Committee recommends that the Legislature encourage Congress and the Administration to lower these rates.
 - Private activity bonds could be a possible resource to provide funding for low-cost higher-education loans (the State currently has excess PAB availability), but ambiguity in the tax code makes loans unavailable to a student's parent or to refinance a student loan. These are further outlined in the footnotes included in the LIAC findings related to higher education. The Committee recommends the General Assembly adopt the appropriate resolution exploring these issues and urging appropriate action by the IRS and U.S. Treasury.
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- Minutes, Agendas, and Materials from the Local Investment Advisory Committee meetings can be found on the Treasurer's Website:
 - <http://www.vermonttreasurer.gov/cash-investments>
 - **October 22, 2014 Meeting on Housing and Energy:**
 - http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/misc/LIAC_Minutes_10_22_2014%20Approved%20on%2011.5.2014.pdf
 - **November 5, 2014 Meeting on Municipal Infrastructure:**
 - <http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/misc/11%205%202014%20Mins%20%20Final%20Version%20%20Approved%20Mins%20.pdf>
 - **December 9, 2014 Meeting on Transportation:**
 - <http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/misc/LIAC%20Final%20Mins.12.9.2014.pdf>
 - **January 6, 2015 Meeting on Higher Education:**
 - <http://www.vermonttreasurer.gov/sites/treasurer/files/pdf/misc/LIAC%20MINS%201.6.2015%20final.pdf>



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Local Investment Advisory Committee Findings: Housing and Energy

Category: Housing and Energy	Resources		Barriers to Financing			Other Notes
	Existing Sources	Education/Organization/ Admin.	Financing Limitations (term, size, time)	Regulatory Requirements	General Barriers	
<i>Homeownership</i>	<p>Banks - http://www.vtbanker.com/</p> <p>Credit Unions http://www.vermontcreditunions.com/</p> <p>USDA Rural Development http://www.rurdev.usda.gov/NH-VTHome.html http://www.rurdev.usda.gov/HSF_SFH.html Rural Housing Guaranteed Loan Rural Housing Direct Loan Rural Repair and Rehabilitation Loan and Grant</p> <p>Vermont Housing Finance Agency (VHFA) http://www.vhfa.org/</p> <p>It was noted that the banking, credit unions, and mortgage industry has access to capital, and that rates are favorable for individuals who are credit-worthy, but there are many who fall on the other end of the access-to credit continuum and that is where there is the most amount of need.</p> <p>Most mortgages are being underwritten to federal GSE standards (Fannie Mae, Freddy Mac, Ginnie Mae) and provide liquidity to financial institutions.</p>	<p>The process for individuals to obtain a mortgage in the current climate is much more complicated than it was five years ago and this is a barrier for every borrower on the continuum. (Dodd Frank and CFBP)</p> <p>Federal underwriting standards are complicated can be limiting to some VT properties and borrowers.</p>	<p>Generally d own payment requirements and closing costs have increased.</p> <p>USDA RD has some flexibility to go to very low FICO scores in certain cases.</p> <p>Federal secondary markets are dictating size, length and terms of many mortgages.</p> <p>Limited overlap between people who are homeowners and also eligible for income-qualified programs.</p>	<p>NeighborWorks Alliance of Vermont homeownership centers provide pre and post homeownership counseling, but there is no strong steady revenue source to support this work. http://www.vthomeownership.org/</p>	<p>Lack of down payment and closing cost assistance is a significant barrier for many.</p> <p>In many communities there is lack of data or comparable sales for appraisals.</p> <p>There is little investment in private capital for mortgage financing for VHFA bonds that might allow longer term more flexible mortgages</p>	<p>For single-family housing, there is a not a lot of new activity.</p> <p>1 in 10 Vermont homes are supported by USDA guarantee.</p> <p>Appraisals and construction costs are creating issues for borrowers and lenders. The issue is that appraisal value is less than the actual cost of construction.</p>



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	Existing Sources	Education/Organization/ Admin.	Financing Limitations (term, size, time)	Regulatory Requirements	General Barriers	
<i>Homeownership</i>	USDA RD mortgage programs cover most of Vermont. Have 100% financing for qualified buyers.					
<i>Homeownership Energy Programs</i>	<p>Banks - http://www.vtbanker.com/</p> <p>Credit Unions - http://www.vermontcreditunions.com/</p> <p>Efficiency Vermont https://www.encyvermont.com/For-My-Home/Financing/Financing/Financing-Overview</p> <p>NeighborWorks Alliance of Vermont http://www.vthomeownership.org/</p> <p>NWWVT Heat Squad http://heatsquad.org/</p> <p>PACE https://www.encyvermont.com/For-My-Home/Financing/Financing/PACE-Overview</p> <p>504. Rural Repair and Rehabilitation Loans and Grants http://www.rurdev.usda.gov/had-rr_loans_grants.html</p> <p>Vermont Weatherization Program http://dcf.vermont.gov/oeo/weatherization</p> <p>VerMod High Performance Home http://www.vhcb.org/mhip/</p>	<p>No easy one-stop-shop for energy loan programs.</p> <p>Federal regulations are burdensome and energy improvements are frequently not reflected in property values.</p> <p>Many homeowners need a lot of handholding through the decision process. Not a lot of capacity for this service, which can run over \$500 per potential project.</p> <p>No strong steady revenue source to support this work and education. Loan size generally too small to allow for needed overhead costs.</p> <p>No requirements for disclosure of energy use other than voluntary ones.</p>	<p>Energy loans, particularly those that go with improving the building envelope should be long term.</p> <p>Some ARRA funds remaining for interest-rate reductions for income-qualified PACE applicants.</p>	<p>Energy code enforcement is very limited and not well integrated with other building code enforcement.</p> <p>Efficiency Vermont can only claim savings for energy savings above code.</p> <p>Weatherization programs for low income families are limited and lack resources. Most eligible families unable to pay back loans.</p>	<p>The lack of centralization of information.</p> <p>Credit is generally available for borrowers who are able to qualify without counting the value of the energy savings.</p> <p>Cost of Residential Building Energy Standards (RBES) and “stretch codes” for new construction will increase housing costs.</p> <p>Homebuyers do not have access to uniform measures of energy usage costs in Vermont.</p>	<p>Still a lack of consumer interest in pursuing some of the existing resources.</p> <p>Consumers unwilling to pay up front for energy audits.</p> <p>Over 80% of the elderly are homeowners.</p>



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	Resources		Barriers to Financing			
Category: Housing and Energy	Existing Sources	Education/Organization/ Admin.	Financing Limitations (term, size, time)	Regulatory Requirements	General Barriers	Other Notes
<i>Homeownership Energy Programs</i>	<p>For borrowers with good credit and income, energy efficiency and renewable financing is accessible.</p> <p>Vermont Weatherization Program operating through the regional Community Action offices can provide grants to some low income families.</p> <p>NeighborWorks Alliance of Western Vermont operates revolving loan funds with some grants to do home repair and weatherization. There is no strong steady revenue source to support this work.</p> <p>VHCB, in conjunction with High Meadows Foundation and a number of other partners have developed a locally produced modular home (VerMod) that can replace low efficiency mobile homes.</p>				<p>Marginal borrowers with lower income will have a harder time finding access to financing options because they cannot take on the debt.</p>	<p>There are a large number of individuals who are lower-middle income and middle-income who have need for retrofits and funding for efficiency upgrades that is not being met and requires attention.</p>
<i>Other Energy Loan Programs</i>	<p>VEDA programs: Commercial Energy Loan Program http://www.veda.org/financing-options/vermont-commercial-financing/commercial-energy-loan-program/ Small Business Energy Loan Program http://www.veda.org/financing-options/vermont-commercial-financing/small-business-energy-loan-program/</p>	<p>VEDA has done \$27 million in direct energy loans.</p> <p>In addition to direct loans to businesses, VEDA also offers loan guarantees for energy efficiency loans made by participating financial institutions in the Energy Loan Guarantee Program.</p> <p>Vermont's allocation of \$6.45 million of QECCB's has not been used.</p>				



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	Resources		Barriers to Financing			
Category: Housing and Energy	Existing Sources	Education/Organization/ Admin.	Financing Limitations (term, size, time)	Regulatory Requirements	General Barriers	Other Notes
<i>Other Energy Loan Programs</i>	<p>Montpelier Heating District Loan Program: http://www.veda.org/financing-options/vermont-commercial-financing/montpelier-district-heating-loan/</p> <p>Agricultural Energy Loan Program: http://www.veda.org/financing-options/vermont-agricultural-financing/</p> <p>Energy Loan Guarantee Program http://www.veda.org/financing-options/vermont-commercial-financing/energy-loan-guarantee-program/</p> <p>Participating Lenders: http://www.veda.org/wp-content/uploads/061014-rev.-EELGP-Participating-Lenders.pdf</p> <p>Efficiency Vermont Programs: Heat Saver Loan program(in partnership with the Department of Public Service): https://www.encyvermont.com/docs/for_my_home/evt-heatsaver-loan.pdf</p> <p>Energy Loan Guarantee Program, Business Energy Loan Program (in partnership with Opportunities Credit Union) https://www.encyvermont.com/For-My-Business/Financing</p>					



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<i>Other Energy Loan Programs</i>	<p>Agricultural Loan Program (in partnership with Opportunities Credit Union) https://www.encyvermont.com/For-My-Business/Solutions-For/Agriculture-Farms/general-info/Financing</p> <p>EverGreen Revolving Loan Fund (K-12) (in partnership with Green Mountain Power): https://www.encyvermont.com/About-Us/Energy-Efficiency-Initiatives/Community-Energy-amp-Efficiency-Development-Fund http://www.greenmountainpower.com/upload/photos/371CEED_2015_Annual_Plan.pdf</p> <p>Qualified Energy Conservation Bonds.</p>					
<i>Multi-family Housing</i>	<p>Banks -http://www.vtbanker.com/</p> <p>Developers: for-profit and non-profit.</p> <p>Tax Credit Equity Investors and Syndicators – Housing Vermont and others http://www.hvt.org/</p> <p>USDA Rural Development http://www.rurdev.usda.gov/NH-VTHome.html</p>	<p>Requires experienced staff and development team to do any project with tax credits or other federal resources.</p>	<p>Debt Financing needs long term amortization and must have terms longer than 18 years to match tax credit requirements.</p> <p>Debt often needs credit enhancement.</p> <p>State moral obligation and previous investment is helpful.</p>	<p>Most affordable housing in Vermont is done using federal and state tax credits, and grants from VHCB, DHCD, and other federal and state sources.</p> <p>The rules (IRS and other) are complex and can conflict with other rules.</p>	<p>Significant lack of gap filling capital resources (grants) and long term low priced debt.</p> <p>Affordable housing cannot be created just using housing tax credits and debt. “Soft” loans and grants are needed.</p>	<p>Not all communities are open to, or make it easy to, develop general occupancy multi-family housing.</p>



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<i>Multi-family Housing</i>	VT Dept. of Housing and Community Development (DHCD) http://accd.vermont.gov/strong_communities/housing Vermont Housing and Conservation Board (VHCB) http://www.vhcb.org/ VT Housing Finance Agency (VHFA) http://www.vhfa.org/			Banks in VT have supported the majority of tax credit investment in MF affordable housing.	Equity investors may not invest in small VT projects.	Banks in VT are motivated by Community Reinvestment Act requirements.
<i>Multi-family Housing Energy</i>	Banks can provide financing for multi-family energy upgrades and retrofits. The state funders have introduced higher level energy standards for new construction and substantial rehabilitation. VT Dept. of Housing and Community Development (DHCD) http://accd.vermont.gov/strong_communities/housing Vermont Housing and Conservation Board (VHCB) http://www.vhcb.org/ Vermont Housing Finance Agency (VHFA) http://www.vhfa.org/ Vermont Weatherization Program http://dcf.vermont.gov/oeo/weatherization	Efficiency Vermont and the Weatherization Program will provide advice to owners. VEIC has created a Public Purpose ESCO to provide comprehensive energy retrofits to underserved markets in public-serving buildings.	Debt Financing needs long term amortization and must have terms longer than 18 years to match tax credit requirements, although it is possible to look at some shorter terms in dealing with multi-family housing. Renewable and energy efficiency financing programs should be integrated.	Energy code enforcement is very limited and not well integrated with other building code enforcement.	Newly constructed housing is being built to high energy standards, but it is difficult to fully fund projects because of high construction costs and rent limits and lack of capital grants. Many existing projects for affordable housing cannot take on additional debt. Grants or soft loans are needed.	



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	Existing Sources	Education/Organization/ Admin.	Financing Limitations (term, size, time)	Regulatory Requirements	General Barriers	
<i>Multi-family Housing Energy</i>	Efficiency Vermont https://www.encyvermont.com/ Public Purpose ESCO http://www.commonenergy.com/ Efficiency Vermont, a Vermont Energy Investment Corporation, may be a good resource for shared risk financing for energy improvement project.					
<i>Manufactured Housing</i>	Champlain Housing Trust Manufactured Home Loans http://www.getahome.org/loans Champlain Housing Trust has a down payment assistance program funded through VHFA and state housing credits to assist borrowers purchase new more energy efficiency manufactured housing. Some financial institutions can support financing for energy upgrades and retrofits of manufactured housing. VerMod High Performance Home http://www.vhcb.org/mhip/		Financing for manufactured housing is not easily available, particularly for those with low down payments. Terms most often not the same as real property, but done as chattel loans. Particularly hard to get financing leasing parks, even in non-profit owned communities.		Not enough incentives to purchase new energy efficiency homes. Loans for mobile homes are typically treated as chattel loans rather than mortgages, resulting in higher rates and shorter terms.	



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Notes related to findings:

1. Footnote on energy findings:

- Recent declines in fuel prices are challenging the traditional analysis of the economics of energy efficiency and renewable energy projects. One of the most common measurements is the ‘simple payback’, defined as energy project cost divided by the anticipated first year’s savings. By this measure, many energy projects will appear to require additional years before cumulative energy savings will recoup the initial investment. However, it is important to note that energy projects typically have useful lifetimes of more than 10 years, and many exceed 20 years. A financial analysis of life-cycle benefits should factor in the long-term trend of rising energy prices that has been observed for decades, even when short-term price swings run against this trend. Such an analysis will demonstrate that the majority of projects will continue to have favorable economics, even with the recent price volatility.
- Several renewable energy technologies have experienced sharp declines in cost over the last several years. As a result of this, many energy project options for both homeowners and business owners can include renewables which offer economics as good as or in some cases better than available efficiency measures. Whereas only a few years ago, it was almost invariably the case that energy efficiency offered a higher return on investment, this is no longer true. This is changing the characteristics of typical residential and business energy projects. Comprehensive energy projects which include both efficiency measures to lower usage along with renewables which will offset a larger portion of the reduced demand can produce the maximum benefit both in energy cost savings and return on investment.

2. Footnote on the use of short-term housing financing from the State:

- Preservation loans – allow developers to purchase affordable properties that come up for sale and hold them (2-5 years) until permanent financing, tax credits and grants can be lined up. (Allow for interest only, non-amortizing terms.)
- Purchase shorter terms bonds or tranches in VHFA Bond Issues to assist with pricing.
- Energy efficiency and renewable energy financing.
- Continue moral obligation credit enhancement of VHFA bonds



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Local Investment Advisory Committee Findings: Municipal Infrastructure

	Resources		Barriers to Financing			
Category: Municipal Infrastructure	Existing Financing Sources	Education/ Organization/Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers	Other Notes
	<p>Local Banks – capital asset financing and bond anticipation notes.</p> <p>Vermont Municipal Bond Bank (“VMBB”) – tax-exempt bond financing for capital assets and the takeout of bond anticipation notes.</p> <p>USDA Rural Development (“USDA-RD”) – financing and grants for community infrastructure and facilities.</p>	<p>Organizations providing education and information on municipal finance through workshops and materials are:</p> <ol style="list-style-type: none"> (1) VMBB; (2) Vermont GFOA (3) VT League of Cities & Towns (“VLCT”); (4) VT Rural Water Association; (5) Department of Environmental Conservation; and (6) USDA Rural Development; (7) VEDA and VTrans; (8) Contracted engineers provide advice and staff local SRF projects 	<p>Infrastructure improvements are typically financed using capital improvement notes or bonds. Notes in excess of 5 years and bonds require voter approval through Australian ballot. The note/bond approval process is much scripted and can be found in 24 V.S.A. Chapter 53.</p> <p>In addition to 24 V.S.A. Chapter 53, SRF loans are also regulated by 24 V.S.A Chapter 120 and federal EPA regulations.</p> <p>SIB loans are also regulated under Title 23 or Title 49 of the United States Code of Regulations.</p>	<p>A municipality may not have debt outstanding for public improvements which in aggregate exceeds ten times the amount of the grand list.</p> <p>By statute, maximum loan lengths are limited to 30 years or the useful life of the asset, whichever is less.</p> <p>There is an exception to the 30-year loan limit for drinking water projects. They may have up to a 40-year term. USDA-RD is able to offer 40-year debt. SRF loans by federal regulations are limited to 30 years. Because of the current lack of investor interest, the VMBB is only able to issue 30-year debt.</p>	<p>Banks tend not to issue loans with terms in excess of 10 to 12 years. Loans may be issued with an amortization repayment schedule in excess of the loan term, but the borrower will then have a balloon payment due at the term of the loan.</p> <p>Because the IRS is forgoing revenue (taxes) from tax-exempt debt, the IRS requires strict adherence to comprehensive tax-exempt bond rules and regulations. This is problematic because of the long-term nature of the debt, the turnover of municipal officials and the infrequency of bond issuance.</p>	<p>The size and sophistication of a municipality can vary from the City of Burlington with its professional accounting and legal departments to a fire district with 25 homes managed by a volunteer board.</p> <p>SIB interest rates are 1% fixed for the term of the loan. Sophistication of municipality to deal with eligibility requirements and project construction varies. Assistance is available from either VEDA or VTrans.</p>



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Category: Municipal Infrastructure	Resources		Barriers to Financing			Other Notes
	Existing Financing Sources	Education/ Organization/Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers	
	VT Department of Environmental Conservation – State Revolving Fund (SRF) loans for the planning and construction of drinking water, waste water, storm water and solid waste projects.	Financial trainings have been sponsored by: (1) VT Association of School Business Officials; (2) VLCT; (3) VT Government Finance Officers Association; (4) VT Town and City Managers Association; (5) VT Clerks & Treasurers Association	Loans may be issued as taxable or tax-exempt debt, with tax-exempt debt having the lowest cost of financing. Municipal leases do not require voter approval, but may be authorized by local legislative action. A municipal lease must contain a “non-appropriations clause” (the lease can be terminated if lease payments are not appropriated). This allows the debt to be considered a current expense note and therefore approved at the local legislative level and not by the voters. Numerous regulations are required by any state or federal financing program.	SIB loan repayment may commence no later than 5 years after project completion. Required borrower equity contribution to project normally 10-20%.	Few borrowers have institutional knowledge of capital project management and long-term financing options. Tax-exempt debt is difficult and often cost-prohibitive to prepay. With the exception of certain public utility loans, the Bond Bank may not issue debt with mortgage style repayment plans. Principal repayments must be in equal or declining amounts. SIB projects must be eligible under Title 23 or Title 49 of the United States Code of Regulations and must demonstrate positive economic development impact. Projects must conform to VTran’s Rules on Design Standards.	Many municipalities are reluctant to incur expenses from professionals at the project design or implementation stage. This causes delays in project conception, approval and startup. With SRF loans project engineers often provide planning and loan development services that would normally be done in-house by a borrower. There is a lack of capital renewal planning by many municipalities. Rather than replacing/renewing assets when the useful life has been met, assets are often not replaced/renewed until there is no recourse and often at a higher cost as a result of the delays.



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Category: Municipal Infrastructure	Resources		Barriers to Financing			Other Notes
	Existing Financing Sources	Education/ Organization/Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers	
	<p>The Vermont State infrastructure Bank (SIB) – Revolving fund loans for public infrastructure including construction or reconstruction of highways, roads and bridges and pedestrian facilities; also construction of certain rail transit or public transit facilities; and construction/installation of electric vehicle charging stations and natural gas refueling stations available for public use. The SIB program is jointly managed by VTrans and VEDA.</p>		<p>Storm water infrastructure regulations that will be required by the Lake Champlain TMDL. The price tag of these requirements is large and the question of, where the dollars will come from, is unanswered.</p>		<p>SRF loans may have Davis Bacon and Buy America provisions and are required to comply with over 25 Federal laws and regulations. Because tax-exempt bonds and SRF loans are highly regulated, they are time consuming and expensive to issue and monitor over the life of the bond/loan.</p>	<p>Many water and wastewater systems were originally installed in the '80s using federal grants. These systems are worn out and need replacement and there are no longer grants to do so. Most municipalities have not set up sinking funds to cover the replacement costs, requiring them to borrow to replace the worn-out system.</p>



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	Existing Financing Sources	Education/ Organization/Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers	
	<p>Banks and other financing institutions – municipal lease to own financing for capital projects.</p> <p>FEMA and the Hazard Mitigation Grant Program: lots of projects are built or rebuilt with these dollars.</p>				<p>Local legislative bodies are made up of volunteers that often do not have capital asset or financial management knowledge.</p> <p>Lining up several programs for financing a single project is problematic due to the conflicting regulations of different programs.</p>	<p>There is not a lack of financing for infrastructure projects. USDA-RD has returned unused lending/grant capacity to Washington. The VMBB has been very successful issuing bonds for municipal projects. Because of the lack of Vermont tax-exempt bonds for sale, there is additional capacity available for new debt to be issued.</p>



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Notes related to findings:

1. Existing Financing Sources Further Defined:

- Local Banks – loans are issued based on the credit quality of the borrower. The lower a borrower’s credit quality, the higher the interest rates charged. Loan terms are often limited based on a bank’s appetite for long-term debt.
- VMBB – tax-exempt loan interest rates are based on the interest charged by investors for the bonds issued. Because the VMBB is highly rated by Moody’s and S&P, the VMBB has access to very low cost financing and actually trades closer to an AAA rated municipality than its AA rating. Tax-exempt interest rates are approximately 2/3 of the taxable rates.
- USDA-RD – has a number of grant and subsidized financing programs available to Vermont’s municipalities. These include a community (infrastructure) facilities program; rural area electric facilities loans; telecommunication loans and grants for broadband access, distance learning and telemedicine programs; water and wastewater projects; and financing for community and economic development programs.
- Vermont Department of Environmental Conservation – SRF program is funded by appropriations from the federal EPA and the Vermont legislature. Based on eligibility criteria, loans are offered with interest rates from a -3.0% to a +3.0%.
- Municipal Leases – tax-exempt leases for capital purchases that tend to be in the low range of cost and term length of the loan. The required “non-appropriation” clause for a municipal lease turns the financing into a current expense note and therefore simplifies the approval process for the loan.
- Vermont State Infrastructure Bank (SIB) – Loans are backed by the general credit of the municipal borrower. Interest rate is 1% fixed for loan term. Repayment terms are flexible.

2. 2014 Report Card for Vermont’s Infrastructure:

- The 2014 Report Card for Vermont’s Infrastructure (“Report”) was developed by the Vermont Section of the American Society of Civil Engineers. The Report grades six areas of Vermont’s infrastructure with a grading of A (highest) to an F (lowest).
- Bridges graded out as a C. The Report found that 30% of Vermont’s bridges were deficient. The Vermont Agency of Transportation estimated in 2008 that \$110 million is needed every year for 20 years to fill the bridges funding gap and address the structural and age issues.
 - Dams graded out as a C. Vermont has 1,219 dams on its state inventory and 198 (16%) of those structures are classified as high or significant-hazard-potential. Based on inspections completed in 2013, 35% of dams inspected were in poor condition. The financial burden of repairing or removing the poor-condition dams is estimated to be \$22 million for all removals and \$35 million for all repairs. The majority of Vermont dams are the responsibility of private landowners that tend to have limited willingness to invest in maintenance and repairs.
 - Drinking Water Systems graded out as a C-. Vermont has a total of 1,377 active public water systems, and 97% of these are small community systems. Vermont needs \$510 million over the next 20 years to meet the water system need. Annual funding deficits ranged from \$10 million to \$40 million over the past four years, providing only about half of the funding needed for Vermont’s drinking water systems.



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- Wastewater Systems graded out as a D. Vermont has over 7,000 miles of rivers and streams, 300,000 acres of wetlands, and 812 lakes and ponds, totaling over 230,000 acres. To address Vermont's clean water needs, \$156 million of additional funds is needed annually to do wastewater and stormwater sewer repairs, retrofits, and facility upgrades
- Roads graded out as a C-. Positively, state legislators and the Governor passed the largest investment ever made in the state's transportation infrastructure which contains \$685.7 million in transportation funding for 2015. VTRANS estimates a funding need of \$700 million per year from 2016 at least through 2018.
- Solid waste graded out as C+. In 2012, Vermonters generated approximately 600,000 tons of municipal solid waste (MSW). Of that, over 200,000 tons were recycled or otherwise diverted from landfills or incinerators. This represents a 35% diversion rate, almost three times the 12% rate in 1987 before implementation of Vermont's first robust solid waste management law (Act 78). Though progress has been made in managing solid waste since passage of Act 78, the diversion rate has remained flat at 30% to 35% over the last two decades.
 - The actual Report Card can be found at <http://www.vtasce.org/wp-content/uploads/2014-ASCE-Report-Card.pdf>.

3. Public-Private-Partnerships

- Public Private Partnership (P3) sector is becoming an active player in the financing of public infrastructure around the nation. Municipalities are turning to the private sector to build, update and maintain public infrastructure. Beyond financing, P3s can also increase efficiency, decrease project costs and accelerate project delivery schedules. P3 projects have evolved from solely being transportation related to social infrastructure projects such as civic centers; criminal justice facilities; court houses; energy efficiency; storm water; waste water; and drinking water projects.
- Availability payments have become an increasingly common method of structuring P3 compensation. After meeting certain performance standards, the private sector partner is entitled to receive periodic payments from its public sector partner to meet the build-out, management and upgrading of the asset.
- Energy Performance Contracting ("EPC") is becoming an attractive form of P3 financing in Vermont. EPC is a turnkey service, sometimes compared to design/build construction contracting which provides customers with a comprehensive set of energy efficiency, renewable energy and distributed generation measures and often is accompanied with guarantees that the savings produced by a project will be sufficient to finance the full cost of the project. A typical EPC project is delivered by an Energy Service Company (ESCO) and consists of the following elements:
 - Turnkey Service – The ESCO provides all of the services required to design and implement a comprehensive project at the municipality's facility, from the initial energy audit through long-term Monitoring and Verification of project savings;
 - Comprehensive Measures – The ESCO tailors a comprehensive set of measures to fit the needs of a particular facility, and can include energy efficiency, renewables, distributed generation, water conservation and sustainable materials and operations;
 - Project financing – The ESCO arranges for long-term project financing that is provided by a third-party financing company. Financing is typically in the form of an operating lease or municipal lease; and
 - Project Savings Guarantee – The ESCO provides a guarantee that the savings produced by the project will be sufficient to cover the cost of project financing for the life of the project.



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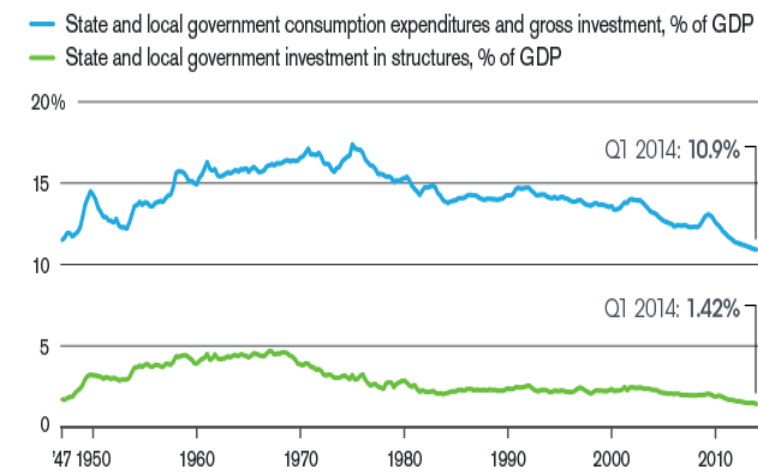
The Short-Term Thinking Behind America's Infrastructure Crisis

By Allison Schrage, October 14, 2014, BloombergBusinessweek

Last week, Larry Summers repeated his plea for the U.S. to invest more in its crumbling infrastructure. He—and the latest World Economic Outlook from the International Monetary Fund—are imploring governments to issue additional debt to finance roads, bridges, water treatment, and extension of power grids. Even the most conservative estimates suggest that the projects would pay for themselves, especially with real interest rates below 1 percent.

Investing in infrastructure may seem like a no-brainer, but financing it is more complicated. Most infrastructure projects are chosen and paid for at the state and local level. About three-quarters of U.S. highway spending is financed by state and local governments. Which projects are chosen and how they are financed comes down to local politics. And local governments are not making infrastructure investment a priority. According to Bloomberg News, most states—regardless of which political persuasion dominates them—are issuing less of the debt that ordinarily pays for roads, bridges, and airports. Municipal bond issuance was down 12 percent in 2013.

State and Local Infrastructure Spending



Source: Data compiled by Bloomberg

Bloomberg Visual Data

Summers argues that today's low interest-rate environment makes this an ideal time to invest in infrastructure. A just-released report from Standard and Poor's explains why states are not doing this. Henry Henderson, a director of public finance at Standard and Poor's, says borrowing for anything, including infrastructure projects, requires states to account for future interest payments in budget projections. Even with low interest rates, that's money they just don't want to spend. Instead resources are going toward other services (such as schools), lowering taxes, and funding pension and health care. About 10 states are proposing tax cuts for 2015, but hardly any states are planning significant infrastructure expansion.

This is short-term thinking. Neglecting infrastructure now increases the cost of repairs in the future, both because there will be more damage and because the cost of borrowing money will probably rise. Interest rates aren't likely to stay so low for long, and the federal government is considering restricting states' ability to issue tax-exempt bonds. Meanwhile, competing budget pressures will probably intensify. As of now, 74 percent of the liabilities that states owe are unfunded retirement benefits, according to the Standard and Poor's report.

The ratings agency predicts that the private sector will eventually have to step in. The government has already teamed up with private entities to finance infrastructure projects in 33 states. These arrangements, called P3s (for public-private partnerships), are already popular abroad—especially in emerging markets whose high borrowing costs and political corruption have stymied adequate infrastructure investment. Municipalities may find that P3s can serve a similar purpose in the U.S.



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Transportation

Local Investment Advisory Committee Findings: Transportation

Category: Transportation	Resources		Barriers to Financing		Other Notes
	Existing Sources	Education/ Organization/Admin.	Regulatory Requirements	General Barriers	
	<p>Existing Transportation Financing tools include:</p> <ul style="list-style-type: none"> • GARVEEs • Private Activity Bonds • Build America Bonds • TIFIA • State Infrastructure Banks <p>Non-Transportation Financing specific tools that could be deployed to support VT transportation projects include:</p> <ul style="list-style-type: none"> • Tax Credit for businesses in designated downtowns or village centers for EV charging • Transportation ESCO • Tax free employee energy savings accounts • Social Impact Bonds 	<ul style="list-style-type: none"> • VEIC • CarShareVT • Public Transit Providers: VT Public Transit Association (VPTA) • RPCs and MPO (Chittenden County only): VT Association of Planning and Development Agencies (VAPDA) • Local Motion (Bike/Pedestrian) • VT Bike/Pedestrian coalition • VT Rail Action Network (VRAN) • VT Transportation Efficiency Network (VTEN) • Drive Electric Vermont • AARP 	<p>When federal funds are used for transportation financing Title 23 and 49 USC come into play—restrictions are prevalent.</p> <p>Air quality regulations impact transportation infrastructure.</p> <p>SIB loans are also regulated under Title 23 or Title 49 of the United States Code of Regulations.</p>	<p>Transportation is funded by grants and direct appropriations. Transportation Finance programs at the federal level require a scale and scope that usually does not work for VT (e.g. project costs of \$1 billion or more).</p> <ul style="list-style-type: none"> • Transportation System Investment Needs Exceed Funding Available at both the Regional and Local Level • Federal Highway Trust Fund has not been a stable, reliable source of long term funding in recent years • Municipalities will be facing potentially steep transportation system investment costs due to the Lake Champlain TMDL Road and 	<p>SIB interest rates are 1% fixed for the term of the loan. Assistance is available from either VEDA or VTrans.</p>



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	Resources		Barriers to Financing		
Category: Transportation	Existing Sources	Education/ Organization/Admin.	Regulatory Requirements	General Barriers	Other Notes
	<p>The Vermont State infrastructure Bank Revolving fund loans for public infrastructure including construction or reconstruction of highways, roads and bridges and pedestrian facilities; also construction of certain rail transit or public transit facilities; and construction of electric vehicle charging stations and natural gas refueling stations available for public use. The SIB program is jointly managed by VTrans and VEDA.</p>		<p>SIB loan repayment may commence no later than 5 years after project completion. Required borrower equity contribution to project normally 10-20%.</p>	<p>Bridge and Standards</p> <ul style="list-style-type: none"> The Public views the Transportation System as one entity, regardless of local, state and federal boundaries <p>SIB projects must be eligible under Title 23 or Title 49 of the United States Code of Regulations and must demonstrate positive economic development impact. Projects must conform to VTrans’s Rules on Design Standards.</p> <p>Sophistication of municipality to deal with eligibility requirements and project construction varies.</p>	



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 Higher Education

Local Investment Advisory Committee Findings: Higher Education

Category: Higher Education	Resources		Barriers to Financing		
	Existing Sources	Education/Organization/ Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers
	<p>The common components of a financial aid “package” for a student with financial need typically would include:</p> <ol style="list-style-type: none"> 1. College grants & scholarships 2. Federal Pell grant 3. Vermont grant (VSAC) 4. Private scholarships 5. Fed. Suppl. Ed. Opportunity Grant 6. Federal work-study 7. Federal Perkins loan 8. Subsidized Federal Loan 9. Unsubsidized Federal loan 10. Federal PLUS (parent) loan 11. VSAC Advantage loan (a non-federal loan) 12. Other funds provided by the student and/or the student’s parents (the 	<p>The VSAC Web site provides comprehensive information and advice about federal and private education loans.</p> <p>http://services.vtac.org/wps/wcm/connect/vtac/vtac/pay+for+college/funding+sources/loans/vtac++pay++funding+sources++loans</p> <p>VSAC provides other opportunities for students and parents to learn their way through the maze of college planning, college applications, financial aid applications, and more. See: http://vtac-web.ungerboeck.com/coe/coe_p1_all.aspx?oc=10&cc=STAND (presentations on filling out financial aid forms)</p>	<p>The regulatory environment is congested, with the following:</p> <p>Federal consumer lending regulations, including Federal Trade Commission, Consumer Financial Protection Bureau, Telephone Consumer Protection Act (regulating the calling of borrower’s on their cell phones), Fair Debt Collection Practices Act.</p> <p>State consumer lending regulations, including different versions of the Unfair Consumer Practices Act. Federal student loans generally are not subject to state consumer protection laws, but VSAC’s Advantage Loans are subject to them in the states where borrowers in repayment reside.</p>	<p>See Exhibit A for Federal loan limits.</p> <p>The VSAC Advantage Loan has no absolute limit, although the loan cannot exceed the total cost of attendance and the loan itself is subject to underwriting standards and the credit strength of the co-signer.</p>	<p>The high cost of attending college presents the initial, substantial barrier in this area of the capital needs of the state. To state the obvious, if the cost of attendance were substantially lower, the need for student loans would be that much less intimidating and therefore more obtainable. A report being issued by the study committee established pursuant to Act 148 (2014) of the Vermont General Assembly addresses the serious, chronic underfunding of Vermont’s students, UVM and the Vermont State Colleges and makes policy recommendations on how to address the problem. The report will be available through the Legislative Council on January 15, 2015.</p> <p>http://legislature.vermont.gov/reports-and-research/find/2016</p>



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Category: Higher Education	Resources		Barriers to Financing		
	Existing Sources	Education/Organization/ Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers
	<p>“Expected Family Contribution”)</p> <p>See this VSAC Web site for additional and more detailed information: http://services.vsac.org/wps/wcm/connect/vsac/vsac/pay+for+college</p>	<p>http://vsac-web.ungerboeck.com/coe/coe_p1_all.aspx?oc=10&cc=COLL (list of college fairs, visits and open houses)</p> <p>http://vsac-web.ungerboeck.com/coe/coe_p1_all.aspx?oc=10&cc=COLL (paying for college presentations)</p> <p>See the December 18, 2014 report of the Vermont Financial Literacy Task Force, published by the Champlain College Center for Financial Literacy, here: http://www.champlain.edu/Documents/Centers-of-Excellence/Center-for-Financial-Literacy/VT_FinancialLit_ActionPlan.pdf The report includes an extensive list of financial literacy resources available in Vermont.</p>	<p>The U.S. Department of Education closely regulates the federal loans VSAC services, both the “old” loans made under the Federal Family Education Loan Program and the loans now being made under the Federal Direct Loan Program.</p> <p>Currently, the IRS is interpreting the Internal Revenue Code to make tax exempt financing unavailable for (a) education loans made directly to a student’s parent(s) and (b) education loans made to refinance prior education loans (e.g., to obtain a lower interest rate). VSAC is approaching the U.S. Treasury with a proposal to change this interpretation, as these loan types are essential to a sound and fair education loan system.</p>	<p>Ten years is the standard repayment period for the Advantage Loan. Federal loan repayment options are more flexible. See, generally: http://services.vsac.org/wps/wcm/connect/vsac/vsac/pay+for+college/funding+sources/loans/vsac++pay++funding+sources++loans</p>	<p>The cost of attendance drives the amount of student loan debt incurred by students and their parents, creating repayment hardships and forcing many students to delay or defer important life decisions about families and home-buying.</p> <p>Other significant barriers are:</p> <ol style="list-style-type: none"> 1. Loan limits imposed under the federal loan programs. The limits are very dated and do not reflect the current costs of attending college. 2. Credit and underwriting standards imbedded in private loan programs; these generally require a creditworthy co-signer. If such a co-signer is not available, the loan is not made and the student may be unable to attend college or be forced to drop out.



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Category: Higher Education	Resources		Barriers to Financing		
	Existing Sources	Education/Organization/ Admin.	Regulatory Requirements	Financing Limitations (term, size, time)	General Barriers
		<p>The Vermont State Treasurer takes an active role in promoting financial literacy in Vermont; her office is a source of information and resources on financial literacy: http://www.vermonttreasurer.gov/financial-literacy</p> <p>The U.S. Department of Education now makes/originates all federal education loans. The servicing and collection of the federal loans is contracted out by the DOE to various contractors, including VSAC.</p> <p>VSAC originates its Advantage loans.</p> <p>Other lenders also provide non-federal loans.</p>			



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Notes related to findings:

1. Tax-Exempt Debt Unavailable to Fund Education Loans Made Directly to a student's parent:

- Section 144(b)(1)(B) of the Internal Revenue Code governs the use of Private Activity Bonds (PAB). This section authorizes the funding of education loans to students and to the parents of students under the Higher Education Act of 1965 (HEA). The section also authorizes the funding of non-federal education loans made by eligible state entities such as VSAC.
- An ambiguity in the section has created uncertainty as to whether PAB may be used to make non-federal education loans to parents of students where the student is not a co-borrower. In VSAC's experience and judgment, origination of these parent loans would substantially reduce the cost of higher education for many families.
- The "fix" for this problem is either of the following:
- The IRS could issue a Revenue Ruling clarifying that PAB in fact can be used under a State-approved program for loans made directly to parents for education expenses incurred by a student.
- Treasury could revise/amend its regulations under Section 144(b)(1)(B) of the Code to eliminate the existing ambiguity.
- The LIAC recommends that the state work with its Congressional delegation to secure one of these fixes. Specifically, we recommend that the General Assembly adopt a Resolution explaining the problem and urging appropriate action by the IRS and the U.S. Treasury.

2. Tax-Exempt Debt Unavailable to Fund Loans Made to Refinance a Student Loan:

- A comparable ambiguity exists under Section 144(b)(1)(B) of the Internal Revenue Code concerning the use of PAB to finance loans to refinance prior education loans. The ambiguity is denying students and parents access to lower interest rates available under current market conditions and with less costly tax-exempt financing. The LIAC therefore recommends that the state work with its Congressional delegation to secure one of these fixes. Specifically, we recommend that the General Assembly adopt a Resolution explaining the problem and urging appropriate action by the IRS and the U.S. Treasury.



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3. Federal Education Loan Interest Rates Are Far Higher than the Market Justifies:

- Congress sets the interest rates for the federal education loans. The rates are fixed, not variable, and require legislation to be changed. Currently, the rates are as displayed in the following chart:

Exhibit A		
Loan Type	Borrower Type	Loans first disbursed on or after 7/1/14 and before 7/1/15
Direct Subsidized Loans	Undergraduate	4.66%
Direct Unsubsidized Loans	Undergraduate	4.66%
Direct Unsubsidized Loans	Graduate or Professional	6.21%
Direct PLUS Loans	Parents and Graduate or Professional Students	7.21%

- These rates clearly exceed the cost of funds for the U.S. Department of Education, i.e., the Treasury borrowing rate, even when a margin for the cost of servicing the loans is added. We recommend that the Congress significantly reduce these interest rates to lower the cost of education loans, and that the state work with its Congressional delegation to achieve this goal. This goal could be added to the Resolution described above.

Attachment #1

**Vermont State Treasurer's Office
Summary of Interfund Loans, Credit Facilities and Local Investment Initiatives
Status as of November 15, 2014**

Authorizing Legislation and Agency	Statutory Description	Amount Authorized	Remaining Capacity	Amount Utilized	Term	Rate
Act No. 179 of 2014, Sec. E.131 (2014 Appropriations Bill):	Investment	\$500,000	\$0	\$500,000		
1. Vermont Community Loan Fund				\$500,000	7/15/2014 ^[1]	1.00%
Act No. 87 of 2013, Sec. 8, as amended by Act No. 199 of 2014, Sec. 22:	Credit Facility	\$10,000,000	\$0	\$10,000,000		
2. Vermont Economic Development Authority				\$10,000,000	10/31/2014 ^[2]	0.55%
Act No. 87 of 2013, Sec. 8a:	Credit Facility	\$6,500,000	\$2,966,081	\$3,533,919		
3. NeighborWorks of Western Vermont				\$233,919	10/15/2023	2.00%
4. NeighborWorks of Western Vermont				\$250,000	4/15/2024	2.27%
5. NeighborWorks of Western Vermont				\$250,000	10/15/2024	2.35%
6. Vermont Housing Finance Agency				\$2,800,000	2/15/2024	2.76%
Act No. 178 of 2014, Sec. 41 (2014 Capital Bill Adjustment):	Credit Facility	\$8,000,000	\$8,000,000	\$0		
7. Buildings and General Services, Other State Agencies				\$0	TBD	TBD
Act No. 199 of 2014, Sec. 23:	Credit Facility	Up to 10% of State's average cash balance (approx. \$35mm), including all other credit facilities^[3]		\$0		
8. Credit Facility for Local Investments				\$0	TBD	TBD
TOTALS:		\$25,000,000	\$10,966,081	\$14,033,919		

Notes:

1. Subject to annual review and renewal.
2. Subject renewal for longer term (e.g., 7 to 10 years).
3. Credit facilities authorized by Acts 87 and 178 total \$24.5 million; these amounts are included in, and not in addition to, the amount up to 10% of the State's average cash balance.