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To: Senate Finance Committee
From: Nicole L. Mace, Executive Director
Re: H.747
Date: April 1, 2016

Under current law (24 V.S.A. §4555c), when notified by the Vermont Municipal Bond Bank (VMBB) that a school district is in default of its loan payment(s) to the VMBB, the State Treasurer must “intercept” State aid to the school district. Our understanding is that the VMBB has never had a school district default on its loans.

24 V.S.A. §4555c, as currently written, suggests that, in the event a school district does default on a loan, the Treasurer is only allowed to intercept funds and does not have the authority to transfer the intercepted funds to the VMBB or its trustee. Meanwhile, the intercepted funds would not be released to the school district until it cured its default. The result would be that State funds are withheld while the district remains in default with even less funds available to make a payment. The school district’s only recourse would be to obtain other funds to cure the loan default before the Treasurer could transfer the intercepted funds back to the school district.

The language in H.747 would give the Treasurer the authority to withhold State aid from a school district and to make direct payment of all, or as much as is necessary, of the withheld amounts to the Bank in order to cure the default or the interest on the bond.

After conversations with the Agency of Education and the Vermont Association of School Business Officials, we believe that the proposed changes in H.747 make good sense, particularly if the result is an improved bond rating, which would result in lower borrowing costs for school districts. If a school district is not going to have access to State aid, then directing those funds to cure the default seems the most prudent use of those monies.