

House Committee on Ways and Means
April 10, 2020

Office of the Vermont State Treasurer

Coronavirus Relief Fund

- Congress provided a \$150 billion Coronavirus Relief Fund for state, tribal, and local governments to help broadly cover any “necessary expenditures incurred due to the public health emergency” created by COVID-19.
 - Vermont to receive \$1.25 billion.
 - To be used for increased expenditures related to COVID-19 and not to replace lost revenue
 - Are necessary expenditures incurred due to the public health emergency with respect to COVID-19
 - Were not accounted for in the most recently approved budget as of enactment of CARES
 - Incurred between March 1, 2020 and December 30, 2020
 - Provides for local governments over the population of 500,000 people
- Some Questions/Issues/Needed Clarifications (NAST/NASBO/GFOA)
 - How funds can be managed?
 - Can funds be for cash management purposes?
 - What are the liabilities of states overseeing funds passed through to smaller local governments?
 - More funding is going to be needed given the extent of the crisis
 - COVID-4 Package
 - Infrastructure Bill – probably later in the year
 - Money needed for delayed and decreased revenue

COVID-4 Legislation

At this point little known about timing or specifics; some possible issues are listed below:

- “CARES 2”
- Supplement CARES Act- \$2 trillion not enough to address severity of crisis
- Congress is scheduled to return to Capitol Hill April 20th although discussions ongoing
- “Asks” for this bill (National Association of State Treasurers, other Governmental associations)
 - Need funds at state and local level to address revenue losses and delays in revenue
 - Flexible dollars

Infrastructure Bill

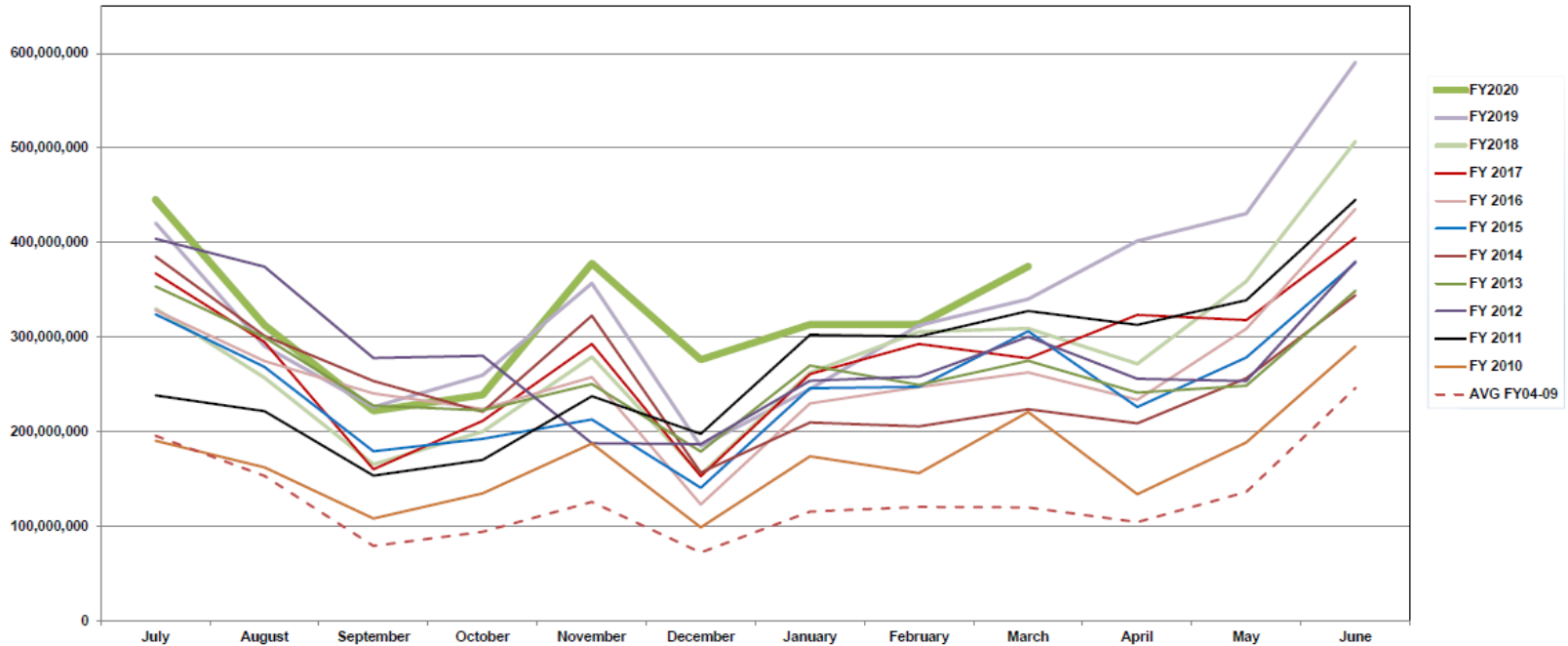
- “Moving Forward” framework
- Proposed \$760 billion infrastructure bill:
 - \$329 billion for Modern Highways & Highway Safety Investments
 - \$105 billion for Transit Investment
 - \$55 billion for Rail Investments
 - \$30 billion for Airports Investments
 - \$50.5 billion for Clean Water & Wastewater Infrastructure
 - \$86 billion for rural broadband expansion
 - \$34.3 billion for Clean Energy
 - \$25.4 billion for Drinking Water
 - \$19.7 billion for Harbor Infrastructure
 - \$12 billion for Public Safety Communications
 - \$10 billion for Water Infrastructure (Flood protection, navigation, etc.)
 - \$2.7 billion for Brownfield Restoration
- Focus on climate change
- No consensus to date- very different perspectives between House and Senate
 - Stimulus vs. immediate needs
 - Some bill likely later in year
 - Needs to advocate for:
 - School Buildings
 - Affordable Housing

Vermont Cash Management

- Revenues in a “normal” year have peaks and valleys that often do not match up to expenditure patterns. Several steps by Vermont to mitigate this.
 - Significant reserves that have been increased over recent years
 - Pooled cash management
 - Efficient cash management/projection capabilities
- Vermont’s cash flow, based on current adjustments for delayed and lost revenue, are sufficient to meet needs although backstops are being developed.
 - Need backstop options to reduce risk

State of Vermont
 Monthly Unrestricted Cash Balances
 July 1, 2004 through June 30, 2020

Fiscal Year	July	August	September	October	November	December	January	February	March	April	May	June	Average	High	Low
FY2020	445,552,401	312,965,630	222,142,458	238,957,578	377,945,036	276,352,133	313,484,484	313,745,077	374,900,708				319,560,612	445,552,401	222,142,458
FY2019	420,777,480	290,619,269	226,312,266	259,819,597	357,038,831	184,725,942	245,153,354	312,445,525	340,189,539	401,805,797	430,664,491	590,721,959	338,356,171	590,721,959	184,725,942
FY2018	330,182,508	257,325,095	165,730,484	200,322,636	279,303,994	154,798,331	262,617,257	305,709,388	309,323,342	271,816,949	358,953,778	507,165,881	283,604,137	507,165,881	154,798,331
FY 2017	367,504,858	295,042,014	160,247,640	211,636,396	292,869,053	153,148,145	260,981,526	293,061,476	277,788,509	323,550,102	317,982,832	405,293,723	279,925,523	405,293,723	153,148,145
FY 2016	328,629,839	274,879,869	240,480,380	224,087,186	257,936,032	123,326,035	230,018,280	247,351,703	262,646,655	233,718,940	308,908,995	435,650,542	263,969,538	435,650,542	123,326,035
FY 2015	324,112,228	268,730,300	179,516,841	192,555,243	213,096,741	140,687,435	246,219,079	247,456,127	306,351,776	226,329,296	278,534,401	379,095,752	250,223,768	379,095,752	140,687,435
FY 2014	385,390,107	301,483,382	253,579,640	221,148,235	322,771,267	156,929,513	209,760,844	205,662,398	223,867,721	208,995,174	256,702,380	344,298,776	257,549,120	385,390,107	156,929,513
FY 2013	353,744,866	299,813,564	227,603,329	222,569,254	250,563,010	179,166,437	270,167,722	249,747,750	275,057,275	241,560,860	248,840,326	348,958,709	263,982,758	353,744,866	179,166,437
FY 2012	404,190,091	374,426,630	277,933,879	280,428,748	187,883,194	186,957,967	253,923,289	258,539,313	300,483,164	255,957,467	253,658,199	379,979,911	284,530,156	404,190,091	186,957,967
FY 2011	238,447,272	221,742,134	153,567,940	170,416,330	237,673,523	197,734,199	302,672,148	300,740,349	327,777,684	313,077,531	339,080,828	445,326,709	270,686,387	445,326,709	153,567,940
FY 2010	190,506,969	162,348,523	108,348,130	134,937,171	187,695,123	98,862,513	174,173,448	156,307,918	220,834,028	133,974,150	188,674,961	290,289,474	170,579,367	290,289,474	98,862,513
AVG FY04-09	195,874,445	153,398,569	79,480,318	94,403,805	125,977,739	72,233,449	115,475,279	120,720,710	120,083,443	104,539,806	136,301,494	246,351,873	130,403,411	246,351,873	72,233,449
Average:	332,076,089	267,731,248	191,245,275	204,273,515	257,562,795	160,410,175	240,387,226	250,957,311	278,275,320	246,847,827	283,480,244	397,557,574	259,447,579	407,397,781	152,212,180



Potential Backstops

(in order of preference)

- **Interfund borrowing**
 - Most efficient and easiest to implement
 - Borrowing from ourselves
 - No cost to taxpayer
- **Lines of credit**
 - Provides flexibility in drawdowns as needed
 - Cost to set up line (even if not used)
 - Additional cost as funds are drawn down
- **Issuing short term debt**
 - Revenue Anticipation Notes, Tax Anticipation Notes, Bond Anticipation Notes
 - Fixed period of time
 - Additional cost of issuance (bond counsel, financial advisory fees, rating fees other)
 - Municipal Liquidity Facility now available
 - Vermont has not done a short-term borrowing since FY2003-04
 - Market volatility
- **Other Considerations: Use of Coronavirus Relief Fund as pooled unrestricted or restricted cash?**
 - States are working on clarification of this issue

Moody's Investor Services- Interfund Borrowing a Routine Option

- “In most cases, total liquidity is ample and even stronger than fund balances because states hold additional cash in their treasury pools that is excluded from the calculation of unrestricted fund balances. The additional cash tends to be held for purposes other than general state operations, but in many cases is available for internal borrowing. Many states routinely borrow from their treasury pools on a short-term basis to maintain sufficient cash flow through a fiscal year.”
- Source: Moody's Investors Services, “Sector Comment: Coronavirus-driven filing extension will delay income tax revenue, but states have resources to bridge the gap”, March 27, 2020

Interfund Borrowing Proposed Language

(as revised by Legislative Council)

Sec. X. COVID-19 EMERGENCY RESPONSE; FISCAL YEAR 2020; INTERFUND BORROWING AUTHORITY

Notwithstanding 32 V.S.A. § 436 or any other provisions of law, in FY 2020, the State Treasurer, with the approval of the Governor, may borrow from any funds created by the General Assembly such available amounts as he or she may determine to be necessary or desirable for the purposes of defraying the expenses of government, including the payment of notes issued for such purposes. The State Treasurer may only borrow under this authority during the period commencing 45 business days prior to the end of FY 2020 and ending 45 business days after the end of FY 2020. Not later than the last day of the period during which the funds were borrowed, the State Treasurer shall transfer to any such fund from which such initial borrowing has been made an amount equal to such borrowed amount, together with interest thereon at such rate as the State Treasurer in his or her sole discretion shall determine.

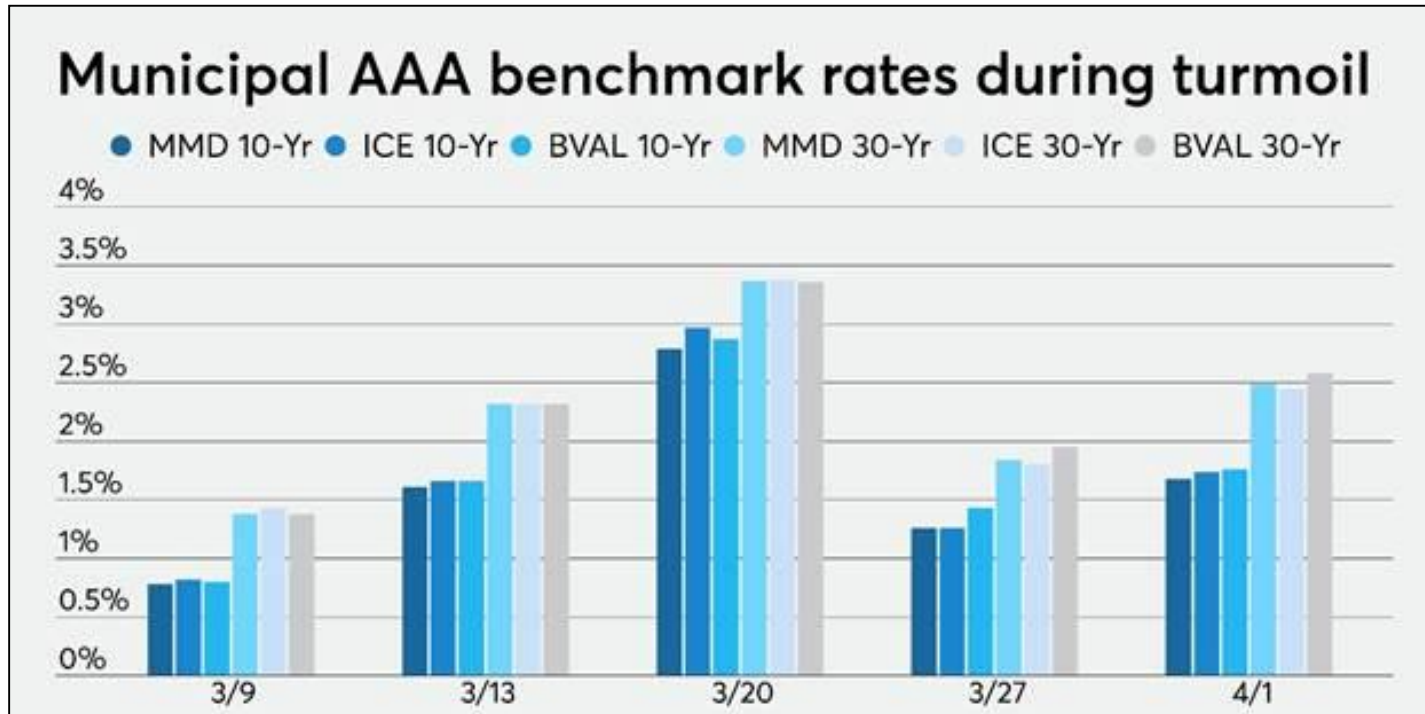
Credit Rating Stresses

- Major rating agencies have weighed in on the public sector as a whole (not issuer specific) and identified credit challenges for the municipal sector.
- A common theme is the issue of liquidity in most recent sector comments:
 - “Fitch Ratings; “While Fitch expects most local governments -- with an average Issuer Default Rating (IDR) of 'AA' -- to retain sufficient liquidity to offset significant near-term revenue declines, some will undergo enough strain to trigger rating downgrades”
 - S&P: “Key Takeaways
 - States are front-line responders and are absorbing significant unbudgeted costs.
 - The closure of large segments of the economy and the ‘sudden stop’ recession will swiftly and negatively affect key revenue streams.
 - Active management, the timing of federal stimulus, and the access to liquidity will be the credit focus”
 - Moody’s Investor Services: “The shifting of payments will compel some states to slow spending and dip into reserves to bridge the shortfall in receipts. Some may engage in short-term borrowing in order to maintain available reserves and liquidity. Yet healthy reserves accumulated over the past several years of economic growth will help ease the difficulties arising from revenue delays.”

Recent Volatility in Bond Market

- \$3.8 trillion municipal bond market
- State and local governments access the municipal bond market provide borrow funds for:
 - Capital improvements and infrastructure
 - Cash flow borrowings (revenue anticipation notes, tax anticipation notes)
 - Need for cash flow borrowings in many states exacerbated by COVID-19 health crisis
- In times of economic volatility investors typically race to safe assets which historically includes municipal bonds
 - Investors had concerns about the impact the COVID-19 health crisis and resulting economic distress will have on state revenues.
 - Similar concerns for other issuers -cities, hospitals, airports, education institutions
 - Result: investors wanted to be compensated with higher rates
 - Last month- large outflows in bond funds and few issuers-essentially freezing the market
- Some relief from CARES Act helped stabilize market to a degree
 - Some volatility in the bond market may continue.
 - Additional relief being sought by issuers in any COVID-4 legislation
- Issuers who postponed their sales during the outflow period will be looking to go to market soon, as of last week many issuers evaluating on a day-to-day basis

Current Bond Market Environment Impacted by COVID-19



Source: Bond Buyer online, Lynne Funk and, Aaron Weitzman, April 01, 2020.

Current rates continue lower:

10 Year MMD- 1.30%; ICE-1.44%; BVAL-1.39%

30 Year MMD- 2.11%; ICE-2.17%; BVAL-2.16%

Note: MMD and BVAL are as of 4/8/20 and ICE are as of 4/7/20

Municipal Liquidity Facility

- The Municipal Liquidity Facility will help state and local governments manage cash flow pressures in in their communities
- The Facility will purchase up to \$500 billion of short-term notes directly from:
 - U.S. states (including the District of Columbia),
 - U.S. counties with a population of at least two million residents
 - U.S. cities with a population of at least one million residents.
 - Eligible state-level issuers may use the proceeds to support additional counties and cities.
 - The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.
- Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (TANs), bond anticipation notes (BANs), and other similar short-term notes.
- Facility will permit purchase eligible notes issued by the State in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue for fiscal year 2017.
- The State may request purchase of eligible notes in excess of the applicable limit above in order to assist political subdivisions and instrumentalities that are not eligible for the Facility.
- Notes must mature no later than 24 months from the date of issuance.

Community Disaster Loan Authorizing Language

Title 20 : Internal Security And Public Safety

Chapter 001 : Emergency Management

(Cite as: 20 V.S.A. § 35)

§ 35. Community disaster loans

Whenever, at the request of the governor, the president has declared a "major disaster" to exist in this state, the governor is authorized:

(1) Upon his determination that a local government of the state will suffer a substantial loss of tax and other revenues from a major disaster and has demonstrated a need for financial assistance to perform its governmental functions, to apply to the federal government, on behalf of the local government, for a loan; and to receive and disburse the proceeds of any approved loan to any applicant local government.

(2) To determine the amount needed by any applicant local government to restore or resume its governmental functions, and to certify the same to the federal government, provided, however, that no application amount shall exceed 25 percent of the annual operating budget of the applicant for the fiscal year in which the major disaster occurs.

(3) To recommend to the federal government, based upon his review, the cancellation of all or any part of repayment when, in the first three full fiscal year period following the major disaster, the revenues of the local government are insufficient to meet its operating expenses, including additional disaster-related expenses of a municipal operation character. (Added 1975, No. 97, § 2, eff. April 30, 1975.)

Option for Municipalities

FEMA Community Disaster Loans

- The Community Disaster Loan (CDL) Program provides operational funding for local governments to continue to operate after a substantial revenue loss caused by a disaster.
- Local governments can apply if:
 - Located in a Presidentially declared disaster area
 - Substantial revenue loss is greater than or equal to 5%
 - Affects the current or subsequent fiscal year
- The loan amount shall not exceed 25% of the annual operating budget of the locality for the fiscal year, up to \$5million
- The term of the loan is five years
 - May be extended to ten years
- Interest accrues only on portion of funds drawn by applicant
- See Community Disaster Loan Fact Sheet (copy submitted to House Ways & Means)
 - [https://www.fema.gov/media-library-data/1549377354379-306d5989736705cf2f921b802d01663e/What is Community Disaster Loan 2.4.19.pdf](https://www.fema.gov/media-library-data/1549377354379-306d5989736705cf2f921b802d01663e/What%20is%20Community%20Disaster%20Loan%202.4.19.pdf)