Municipal Borrowing
House Committee on Ways and Means
April 22, 2020

Office of the Vermont State Treasurer

State Borrowing
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

Municipal Options Are Similar (yet different)

- Short Term Credit Facilities
  - Local Banks
    - Banks have had a history of stepping up to the plate in recent natural disasters
    - Have established relationships with municipal entities
    - Available to help now
  - Federal Municipal Liquidity Facility via State
    - Lots of unresolved issues
    - Facility not yet operational
- COVID Reimbursement of interest and related costs for short-term borrowing may be possible.
- While municipalities can issue debt on their own, the Bond Bank, with a few exceptions has been the mechanism for physical infrastructure projects, but not for short-term or revenue related (RANs, TANs) financing.
- Possible Intermediate Option
  - Community Disaster Loans - FEMA
    - Five-year maturity, renewable up to ten years
    - Provides a path to loan forgiveness under certain conditions
    - Requires coordination with State
    - Need to investigate current FEMA capacity and timelines given the number of state disaster declarations

Recently Announced Municipal Liquidity Facility (MLF)

- The Municipal Liquidity Facility will help state and local governments manage cash flow pressures 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 (RANs), 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.

Source: Press Release: "Federal Reserve takes additional actions to provide up to $2.3 trillion in loans to support the economy", April 9,2020 and Municipal Liquidity Term Sheet, April 9, 2020

Municipal Liquidity Facility Issues

- At current eligibility levels, Vermont communities lack direct access to funding

- Beyond one term sheet, no guidance has been issued and facility is not yet operational
  - FAQ Portal- They are currently taking questions online. They will be putting out an FAQ sheet (likely in the next two weeks)
  - Various estimates on when final guidance will be available range from three to six weeks

- Questions to be addressed:
  - Who will manage program for Fed?
  - Pricing terms
  - Acceptable vehicles: General Obligation (GO) and/or Appropriation Debt
  - Potential need for Vermont statutory changes
  - State credit or municipal credit?
  - Credit implications for State and impact on bonding capacity
  - Relationship with State intercept program
  - Is this the best vehicle for structural deficits?
  - Cost vs. bank lines of credit

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.)

Intermediate/Long Term
Potential Option for Municipalities
FEMA Community Disaster Loan

- 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
- In the event of a municipality experiencing a cumulative three-year operating deficit following a disaster, all or part of the loan may qualify for cancellation
- Interest accrues only on portion of funds drawn by applicant
- See Community Disaster Loan Fact Sheet
- https://www.fema.gov/media-library-data/1549377354379-306d5989736705cf2f921b802d01663e/What_is_Community_Disaster_Loan_2.4.19.pdf

FEMA Community Disaster Loan Process