

CARES Act
Housing and Bond Market Discussion

Senate Committee on Economic Development
April 9, 2020

CARES Act

- Allocates \$12.4 billion in funding for housing and homelessness including:
 - **\$5 billion** for Community Development Block Grants
 - **\$4 billion** for Homeless Assistance Grants
 - **\$1.25 billion** for Tenant Based Rental Assistance
 - **\$1 billion** for Project Based Rental Assistance
 - **\$685 million** for Public Housing Operating Costs
 - **\$50 million** for Section 202 Housing for the Elderly
 - **\$15 million** for Section 811 Housing for Persons with Disabilities

Housing Provisions of CARES Act

- Homeless Assistance Grants
 - \$4 billion total aimed at helping individuals and families who are homeless or at risk of homelessness, and to support additional homeless assistance, prevention, and eviction prevention assistance.
 - Eviction prevention activities include rapid rehousing, housing counseling, and rental deposit assistance to mitigate the adverse impacts of the pandemic on working families.
 - Half (\$2 billion) of total is allocated to Emergency Solutions Grants to states, including **\$4.67M for Vermont**.

Community Development Block Grant (CDBG)

- \$5 billion total for economic and housing impacts caused by COVID-19, including the expansion of community health facilities, child care centers, food banks, and senior services.
- Of the total, \$2 billion provided to states and units of local governments that received an allocation under the fiscal year 2020 CDBG formula – this includes **\$4.71M for Vermont (\$450K for Burlington and \$4.26M for the State)**.
- Remaining funds include \$1 billion directly to states to support a coordinated response across entitlement and non-entitlement communities and \$2 billion to states and units of local government based on the prevalence and risk of COVID-19 and related economic and housing disruption.

Housing Provisions of CARES Act

- Emergency Food and Shelter Program
 - \$200 million nationally for shelter, food and supportive services to individuals and families in sudden economic crisis.
- Rental Assistance Protections for Low-Income Americans
 - \$3 billion for housing providers to help 4.5 million low-income households currently assisted by HUD to remain in their homes or access temporary housing assistance. This sum consists of:
 - \$1.935 billion to allow public housing agencies to keep Section 8 voucher and public housing households stably housed;
 - \$1 billion to allow continuation of housing assistance contracts with private landlords for Project-Based Section 8 households;
 - \$65 million for housing for the elderly and persons with disabilities for rental assistance, service coordinators, and support services; and \$65 million for Housing Opportunities for Persons with AIDS.
- Low Income Home Energy Assistance Program (LIHEAP)
 - \$900 million nationally to help families and provide assistance in managing home energy bills as well as weatherization and energy-related minor home repairs, including **\$4.15M for Vermont**.
- Moratorium on Foreclosures and Consumer Right to Request Forbearance
- Moratorium on Eviction Filings on Federally Supported Properties

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
 - 5The Inspector General of Treasury is charged with conducting oversight of receipt and distribution.
- 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
- **Need to examine using a portion of these funds for needs of people experiencing homelessness, low income renters, special needs, individuals with disabilities, additional health care costs, costs associated with isolation**

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
 - Need funds at state and local level to address revenue losses and delays
 - Advocate for the Federal Reserve to provide a bond facility designed to address the borrowing needs of state and local governments resulting from delayed revenues
 - Initial thoughts for Housing
 - Increase investments in the national Housing Trust Fund
 - Rental Assistance
 - Special needs, low-income and Homelessness support services
 - Legal services
 - Homeless Assistance Grants
 - Others??

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
- Stimulus vs. immediate needs
- Some bill likely later in year
- Needs to advocate for:
 - School Buildings
 - Affordable Housing

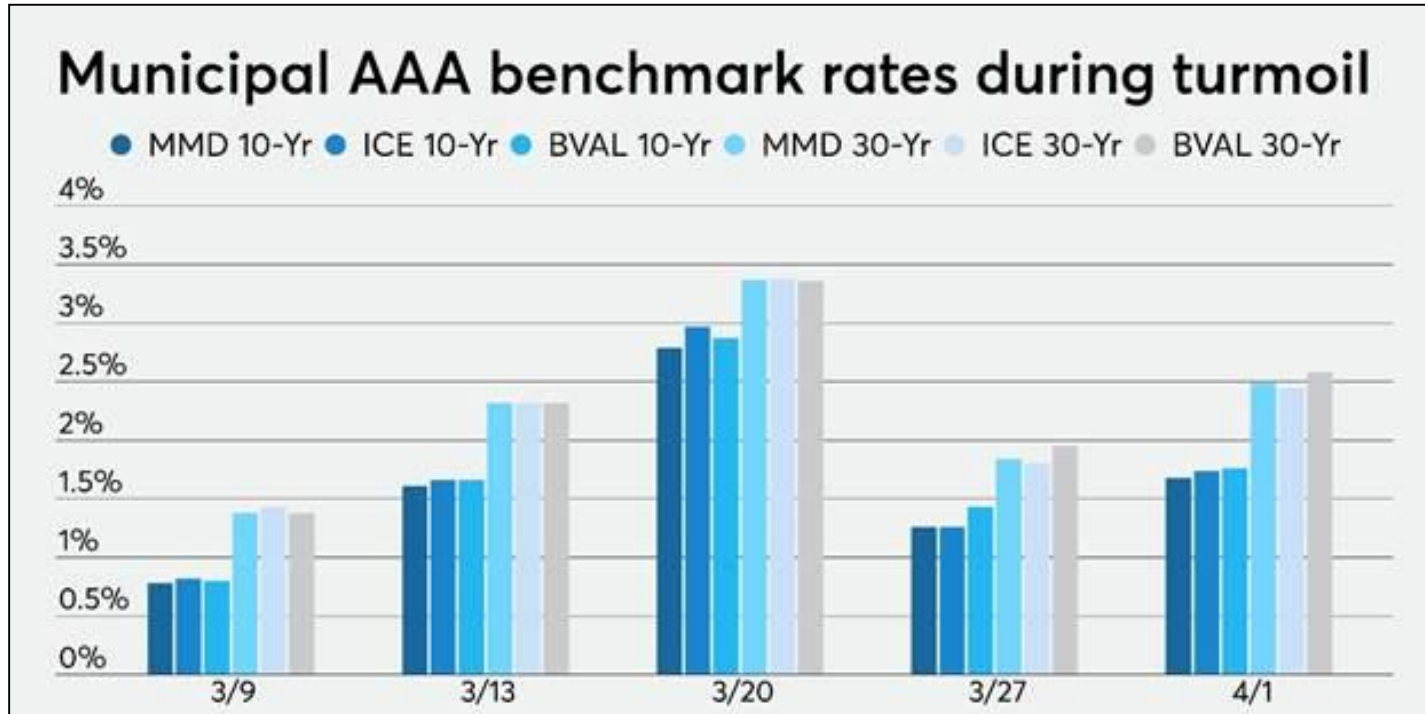
Vermont Cash Management

- Revenues in a “normal” year have peaks and valleys that often do not match up to expenditure patterns that require remediation in many states
 - Adequate reserves
 - Pooled cash management
 - Interfund borrowing
 - Lines of credit
 - Issuing short term debt (Vermont has not done so since FY2003-04)
- Vermont’s cash flow, based on current adjustments for delayed and lost revenue, are sufficient to meet needs although backstops are being developed.

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:

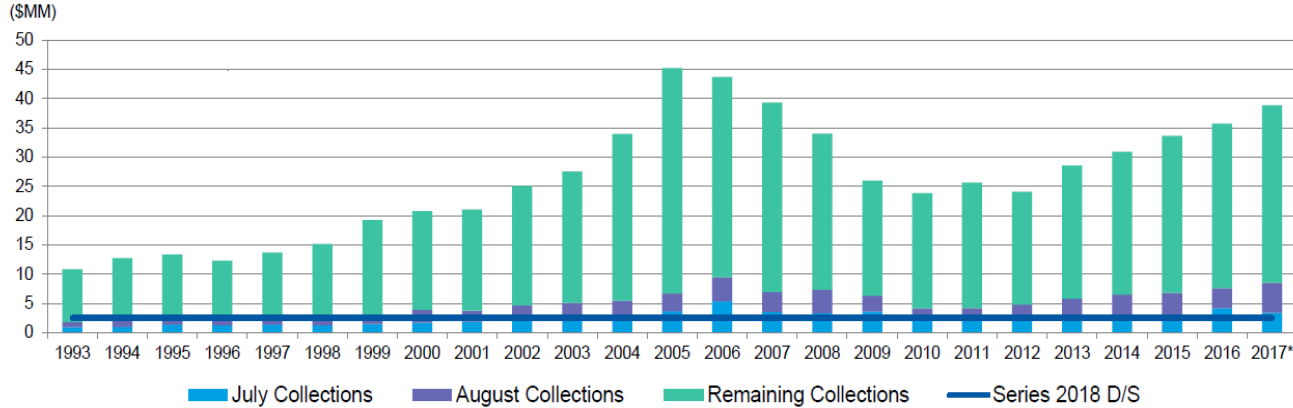
10 Year MMD- 1.30%; ICE-1.44%; BVAL-1.39%

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

PPT Tax Estimates Likely to Decline During this Crisis but... Levels Still Appear to Meet Debt Service Requirements/Coverage Ratios

Property Transfer Tax Revenues by Fiscal Year Since 1993



Source: VHFA Official Statement

Please see additional important information and qualifications at the end of this material.

VERMONT HOUSING FINANCE AGENCY

SENATE ECONOMIC DEVELOPMENT & HOUSING COMMITTEE

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	Coverage Ratio (In millions)					
PPT	40.9	30	25	20	18	15
Debt Service	2.5	2.5	2.5	2.5	2.5	2.5
Coverage Ratio	16.4	12.0	10.0	8.0	7.2	6.0
PPT	40.9	30	25	20	18	15
Debt Service	6.5	6.5	6.5	6.5	6.5	6.5
Coverage Ratio	6.3	4.6	3.8	3.1	2.8	2.3

- Debt Service coverage based on 2018 statewide property transfer tax revenue of \$40.9 million and annual debt service of \$2.5 million is a very strong coverage of 16.4x
- From the peak of revenues in October 2005 to the trough in December 2009 the State's transfer taxes fell by 56%
- If the State's FY 2018 revenues of \$40.9 million dropped by a similar 56% the pledged revenues would be \$18 million and based on current maximum annual debt service, the debt service coverage would be 7.2x, which would still be above Moody's 4.5x threshold for the highest Financial Metric factor
- Hypothetical adding a \$4 million pledge for a second bond: If the State's FY 2018 revenues of \$40.9 million dropped by a similar 56% the pledged revenues would be \$18 million and assuming \$6.5 million maximum annual debt service, the debt service coverage would be 2.77x, which is well below Moody's 4.5x threshold for the highest Financial Metric factor

Source: Public Resource Advisory Group 2019

What Moody's says about the Credit Strengths and Weakness of the Existing Housing Bond

- The credit strengths for the bonds include:
 - healthy coverage of debt service by pledged revenues
 - covenant by the State not to reduce revenues below \$12 million
 - limitations on additional leverage provided in statute and bond indenture
- Credit challenges include volatility in pledged revenues
- The factors that could lead to a downgrade include economic downturn depressing pledged revenues and sharp dip in coverage or a sustained trend in lower coverage, along with no actions by the State to protect bondholders

Source: Public Resources Advisory Group