Municipal Borrowing/Education Fund Discussion

Updated May 5, 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 announced by Federal Reserve, but not a likely option for Vermont
  - 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

- 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 <u>capacity and timelines</u> given the number of state disaster declarations

- Currently reviewing other options

Education Fund Cash Flows

- Act 68 Payments by State remitted on April 30, 2020
  - $163.4 million
  - Next payments to disburse September 10th and December 10th

- Education Fund Payments by Municipalities due to State on June 1, 2020
  - Approximately $88.76 million
  - December 1st next due date

- Many municipalities experiencing cash flow impacts due to delays or deferrals in receipt of property taxes

Compilation of FY20 Town Property Tax Revenues and Outstanding Collections

Number of Payments	Number of Towns	Property Tax Revenue Through 3/15	Outstanding due after 3/15	Number of Towns with Payments Outstanding
1	120	$311	$0	
2	70	$260	$34	25
3	20	$197	$16	8
4	49	$244	$81	49
Total	**259**	**$1,011**	**$132**	**82**

Note: Includes all collections not just payments due the State. Based on tax deadlines and needs to be adjusted for collections prior to due dates, escrow payments, etc.

Source: Legislative website, data provided by PVR - data is collected from a variety of sources including town websites

Recently Announced Municipal Liquidity Facility (Updated on April 27th)

- 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 500,000 residents (updated)
  - U.S. cities with a population of at least 250,000 residents (updated)
  - Eligible state-level issuers may use the proceeds to support additional counties and cities that are not eligible for the Facility.

- Program will terminate on December 31st (updated)

- Notes must mature no later than 36 months from the date of issuance (updated).

- Interest Rate Pricing
  - The FRB uses its authority to serve as the lender of last resort
  - The interest rate on the eligible notes must be a penalty rate - a rate that is a premium to the market rate

- This program does not appear to be an option for Vermont

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, and update April 27, 2020

Treasurer's Office Recommendation

- Short-term municipal borrowing through local banks through established networks
- Interest payments to be reimbursed by State to manage the cash flow effects of property tax deferrals or delays in receipt of such taxes by municipalities as a result of the COVID-19 pandemic, provided that:
  - Short-term borrowing costs were not included in the municipality's budget or any amendment to the budget enacted on or prior to March 27, 2020
  - Short-term borrowing costs were incurred during the period beginning March 1, 2020, and ending December 30, 2020
  - The expenses must be consistent with use of funds authorized in Section 5001 of the CARES Act, as may be amended
- Intent for the State to recover, to the maximum extent possible, the short-term borrowing costs payable to municipalities from the Coronavirus Relief Fund/CARES Act
- Explore capacity of FEMA Community Disaster Loan Program for intermediate-Long Term borrowing

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