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STATE OF VERMONT
OFFICE OF THE STATE TREASURER

TO: Mitzi Johnson, Speaker of the House
Representative Catherine Toll, Chair, House Committee on Appropriations
Representative Janet Ancel, Chair, House Committee on Ways & Means
Tim Ashe, Senate President Pro Tempore
Senator Jane Kitchel, Chair, Senate Committee on Appropriations
Senator Ann Cummings, Chair, Senate Committee on Finance

CC: Steve Klein, Chief Fiscal Officer, Joint Fiscal Office

FROM: Beth Pearce, State Treasurer

DATE: March 26, 2020

RE: Proposed Change to 32 V.S.A. § 436 (Interfund Borrowing)

We have evaluated the State's cash flows in light of recent changes to the timing of revenues for the State, specifically the income tax extension as well as changes to motor vehicles, sales tax, meals & rooms, and other revenue sources.

We believe there is adequate cash to meet the State's needs for the remainder of FY20 but, as you know, the situation is very fluid. As an additional backstop, and out of an abundance of caution, we recommend that the General Assembly increase the time period for which we may make temporary interfund borrowings.

We have discussed this with the State's financial advisor, Public Resources Advisory Group, and propose this jointly with the Administration. By providing an additional 30 days over the current period (as seen in the statutory language below), we improve projected cash coverage, if needed, during the time in our fiscal year when our cash position is generally lower. For the post July period, the proposed change provides additional flexibility of 30 days to repay the borrowing.

Again, our current projections are that our cash position is adequate during this period, but this provides some insurance given the ever-changing landscape. I want to stress that we have sufficient cash flow to meet our obligations and are making payments on schedule. I want to thank all of you and your fellow members for your disciplined and forward-thinking funding of additional reserves in recent years. This has certainly been a plus as we meet this crisis.

Below is our proposed change, which of course may need a bit of legislative tightening up. We would be happy to assist. The intent is for this to be a onetime change that will expire after the FY2020 borrowing period, ending in August 2020.

I appreciate that the Senate has already sent the COVID-19 bill to the House. Because of the dates of the revenue extensions and the need to review with Tax and the State's Economist, the timing for including this proposal in the Senate bill was not there. We would urge, however, that this be included in the next available bill. We would need to have this in place by April 30th at the latest to facilitate an orderly review of cash flows and contingency options.

As I stated earlier, the actions of the General Assembly in fully funding statutory reserves plus identifying and funding additional contingency and reserve funds has placed the State in a better position than many of its peers. Right now, the bond market is essentially frozen, pending the market's response to quantitative easing action by the Federal Reserve Board and stimulus action by Congress. This has exacerbated the situation in other states who need to borrow in the financial markets.

There is a great level of unpredictability in future events. However, as it currently stands, adopting the proposed change set forth below, combined with careful planning of cash flows, will reduce the likelihood that Vermont will need to turn to external bonding or similar options.

My staff and the Administration thank you for your consideration and action. We are available to discuss and answer any questions.

Text of Proposed Change to 32 V.S.A. § 436 (new language underlined)

§ 436. Interfund borrowing

Notwithstanding any provisions of law, the State Treasurer, with the approval of the Governor, may borrow from any funds heretofore or hereafter created by the Legislature such available amounts as he or she may determine to be necessary or desirable for the purpose of defraying the expenses of government, including the payment of notes issued for such purposes. Such borrowing may be only made twice a year; first, during the period commencing 15 business days prior to the end of the State's fiscal year and ending 15 business days after the end of the State's fiscal year, and second, during the period commencing on December 10, or the preceding Friday if December 10 shall fall on a Saturday or Sunday, and ending on January 10 of the succeeding year. Notwithstanding, for the fiscal year ending June 30, 2020, the first period shall commence 45 business days prior to the end of the fiscal year and shall end 45 business days after the end of the State's fiscal year. No 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.