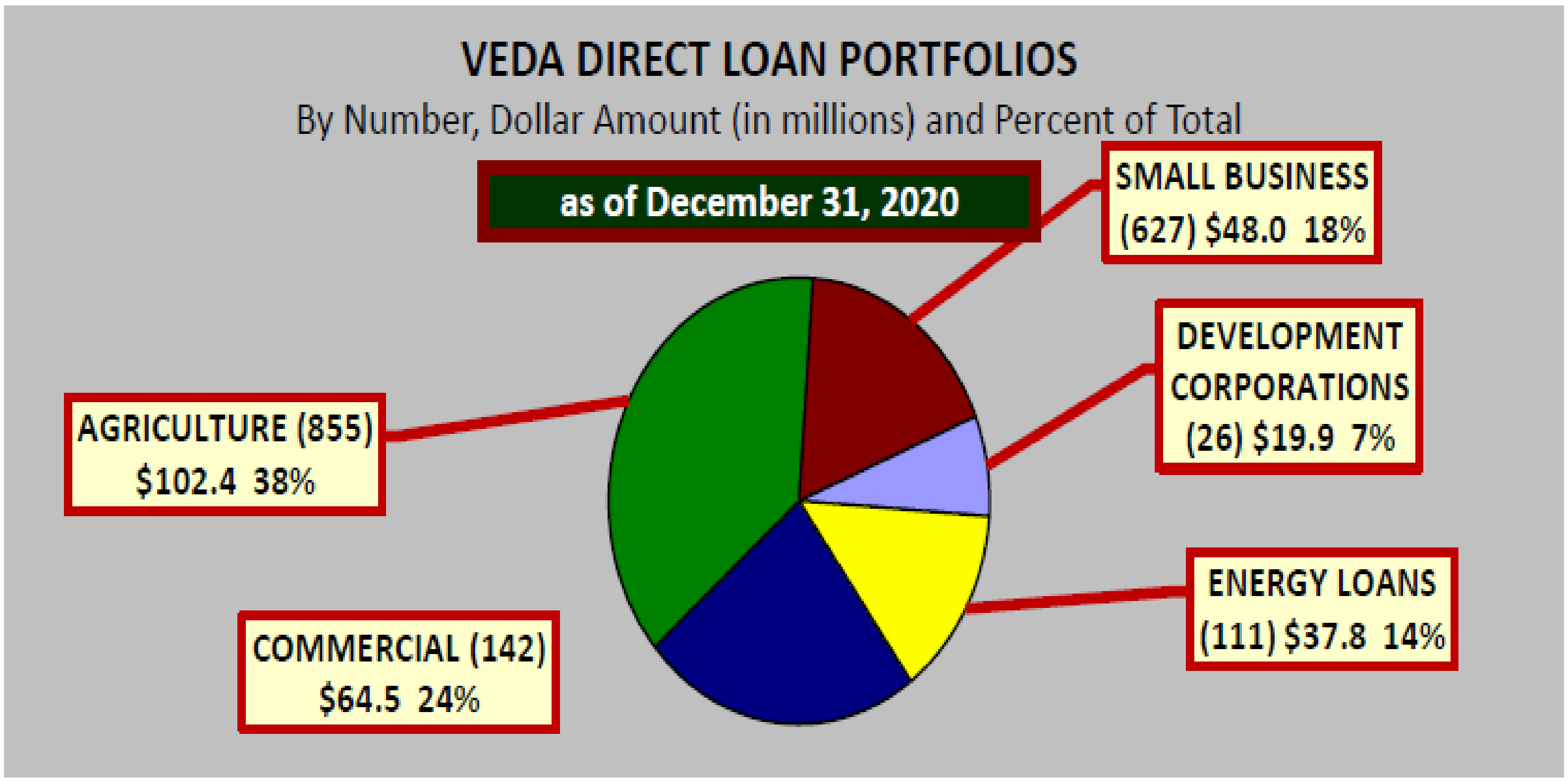
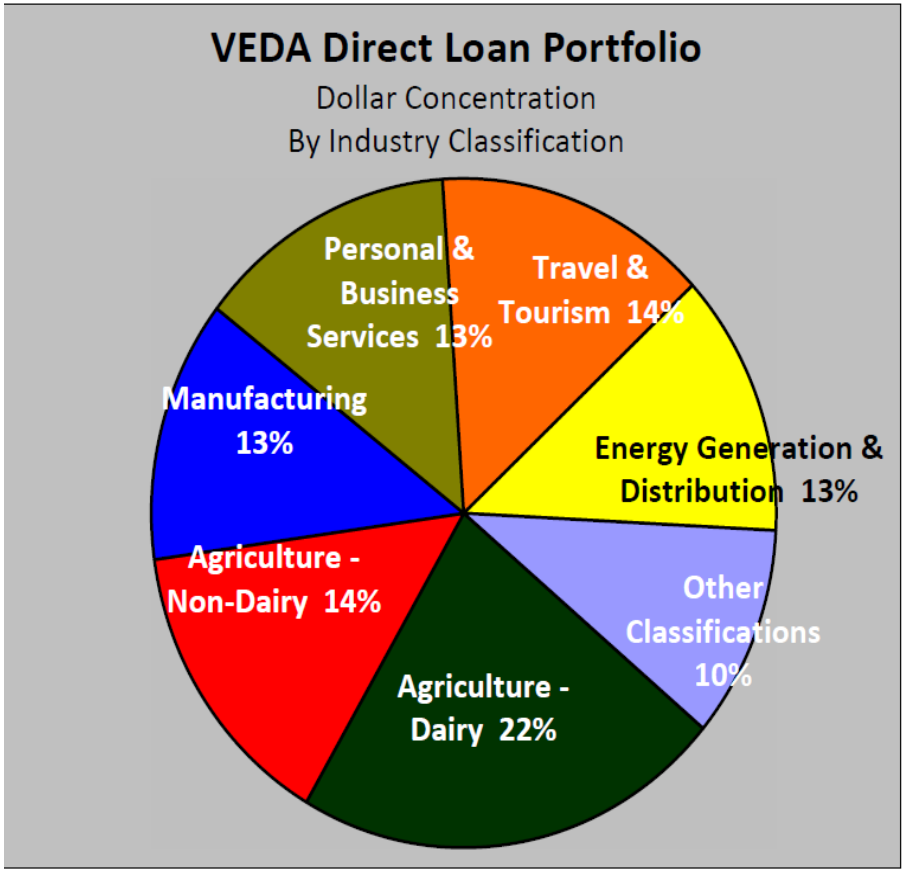
House Committee on Energy & Technology

VEDA Broadband Expansion Loan Program

Quick VEDA Facts:

- $315 million in assets
- $272 million in loans outstanding
- 1,759 loans
- 10 commercial and agricultural loan programs





DOLLAR AMOUNTS IN THOUSANDS

Major Industry Classifications:

Agriculture - Dairy	491	$60,631
Agriculture - Non-Dairy	362	$39,123
Manufacturing	162	34,566
Personal & Business Services	228	36,584
Travel & Tourism	178	38,497
Energy Generation & Distribution	96	34,684
Other Classifications	242	27,998
Total of All Loans	**1,759**	**$272,083**

- Six affiliate loan programs - VEDA provides underwriting and servicing for RLF's held at various state agencies (Brownfields RLF, DWSRF, CWSRF, CEDF, SIB, and WCEDF)

Comparison of Current BB Program to Proposed BB Program:

BBLP Details	Existing	Proposed	Difference
Program Cap	$10,800,000	$36,000,000	$25,200,000
Max Loan Amount	$4,000,000	$8,000,000	$4,000,000
% of Project Financing	90%	90%	$0
Borrowers	All	CUD Only	
Maximum Appropriation Appropriation/Program	$8,500,000 78.70%	$27,000,000 75.0%	$18,500,000 3.7%
VEDA Capital at Risk Capital Risk/Program	$3,000,000 27.78%	$9,000,000 25.00%	$6,000,000 2.8%
Initial LLR Appropriation LLR %	$540,000 5%	$1,800,000 5%	$1,260,000 0
MO Limit VTA Bond Max	$181,000,000 $34,000,000	$193,000,000 $22,000,000	$12,000,000 -$12,000,000
Unused Program Funds	Refundable to State	Used as Revolving Loan Fund	
P&I Deferral	2 years	3 years	

Key Considerations for VEDA:

- **Capital** – VEDA would be risking $9 million, or 14% of total capital with the proposed BB program;
- **Funding Capacity** – VEDA would need to secure 50% of program funding with no credit support from the state; and
- **Loan Covenant Compliance** with existing funding sources – VEDA has various covenants in place within its current debt structure, and this program could cause violations if losses are significant.

VEDA Capital Structure:

- VEDA borrows money from the capital markets and other lenders to relend to eligible VEDA borrowers.
- VEDA's debt:

(000's)

Funding Type	Balance	Available	Total	Collateral	State MO
Commercial Paper	$91,000	$1,500	$92,500	VEDA Loans, Cash	$80,000
Bank Debt	$119,000	$0	$119,000	VEDA Loans, Cash	$92,500
State of VT Direct Debt	$10,000	$0	$10,000	Unsecured	
VACC Agricultural Debt	$4,947	$30,000	$34,947	Agriculture Loans	
USDA IRP Specific	$10,812	$1,000	$11,812	Small Business Loans	
SBA PPP Related	$7,355	$7,500	$14,855	SBA PPP Loans	
Total Debt	$243,114	$40,000	$283,114		$172,500

- $10 million of the available $40 million is program specific and cannot be drawn for the broadband initiative. The remaining $30 million available through the Vermont Agricultural Credit Corporation's (VACC) operating line of credit, which is secured primarily by FSA guaranteed agricultural loans. These balances are seeing a decline, which has reduced available funding in recent years, so VEDA is cautious about stressing these borrowing limits.

- **Possible BB Program Funding Scenario:**

Existing BB Loans Outstanding:	$ 2,000,000	
Existing Cash Liquidity:	$ 4,000,000	(75% of unrestricted cash)
Existing Borrowing Capacity:	$12,000,000	(50% of current open lines)
New MO Backed Borrowings:	<u>$18,000,000</u>	($6 million existing & $12 million new)
Total Program:	$36,000,000	

- **VEDA Balance Sheet Impact** (000's):

Notes	Balance Sheet Date	12/31/2020	Pro Forma Fully Funded	Pro Forma $4.5MM Loss	Pro Forma $9MM Loss
1	Cash and equivalents	$ 7,031	**$ 3,031**	$ 3,031	$ 3,031
	Restricted Investments	$ 34,260	$ 34,260	$ 34,260	$ 34,260
2	Loans receivable	$ 272,474	**$ 306,474**	$ 294,474	$ 282,474
	Less allowance for loan losses	$ (6,205)	$ (8,005)	$ (7,405)	$ (6,805)
	Loans receivable, net of allowance	$ 266,269	$ 298,469	$ 287,069	$ 275,669
	Other assets	$ 6,914	$ 6,914	$ 6,914	$ 6,914
	Total Assets	$ 314,474	$ 342,674	$ 331,274	$ 319,874
3	Commercial Paper and notes payable	$ 243,114	**$ 273,114**	$ 265,614	$ 258,114
	Other liabilities	$ 6,927	$ 6,297	$ 6,297	$ 6,297
	Total Liabilities	$ 250,041	$ 279,411	$ 271,911	$ 264,411
4	Total Net Position (Capital)	$ 64,433	**$ 63,263**	$ 59,363	$ 55,463
	Total Liabilities & Net Position	$ 314,474	$ 342,674	$ 331,274	$ 319,874

Notes	
1	$4MM Available VEDA Cash Contribution
2	$34MM New Loans; Program currently has $2MM outstanding
3	$30MM New Debt Required; $18MM new MO Backed, $12MM from existing lines
4	Immediate Capital reduction based on high level of estimated Loan Loss Reserve (5%)

- **Liquidity Impact:** This funding scenario would require a significant use of available liquidity and additional debt, only 50% of which would be supported by the State with existing/new Moral Obligation pledge. VEDA carries little on balance sheet liquidity in order to most efficiently utilize capital. Contributing an estimated $4 million to this program would deplete much of VEDA's available cash and borrowing the remaining $12 million from existing lines would constrain further loan growth in VEDA's traditional programs.

- **Capital Impact:** VEDA has total capital of $64 million at 12/31/2020. <u>This program as proposed would commit $9 million, or 14%, of VEDA's total capital base.</u>

- Due to a solid capital position, VEDA could sustain the full $9 million loss and remain within internal limits, but this loss would represent several years' worth of historical earnings and could significantly impact VEDA's ability to meet other mission-based objectives.

Ratio	Policy Minimum	12/31/2020	Adding $34MM Loans/Debt	After $4.5MM Loss	After $9MM Loss
Risk Based Capital	10.50%	18.42%	15.64%	15.47%	15.27%
Capital Surplus	N/A	$31,759	$23,173	$21,193	$20,718

- **VEDA's Debt Covenants With its Lenders:** VEDA has several debt covenants in place with its lenders that govern the roughly $270MM of outstanding and available borrowing; the impacts of this program at various levels of default would be as follows:

1. Liabilities to Net Worth plus Reserves: Covenant Maximum 5:1

(000's)

	Actual 12/31/2020	Pro Forma Fully Funded	Pro Forma $4.5MM Loss	Pro Forma $9MM Loss
Total Liabilities	$ 250,041	$ 279,411	$ 271,911	$ 264,411
Total Capital	$ 70,638	$ 71,268	$ 66,768	$ 62,268
Liabilities to Net Worth plus Reserves	3.54	3.92	4.07	4.25
Borrowing Ability	$ 103,149	$ 76,929	$ 61,929	$ 46,929

- The maximum ratio of 5:1 indicates that VEDA can have total debt amounting to no more than 5 times the amount of capital. In other words, for every $1 million of capital lost, VEDA would lose $5 million of borrowing ability.

- At 12/31/20 this ratio was 3.54:1, indicating available borrowing capacity of over $100 million. The adoption of this program would reduce this availability to approximately $77 million, and at the extreme, with $9 million of incurred loss, the ratio would increase to 4.25:1, leaving just $47 million in total borrowing capacity, less than half of current ability.

2. Asset Quality Covenants:

- VEDA also has two covenants limiting the level of inherent credit risk in the portfolio at a given time, split between Criticized/Classified Loans as a percentage of capital, and Adversely Classified Loans as a percentage of Capital.

	Maximum Ratio	12/31/2020	Adding $34MM Loans	$4.5MM Loss	with $9MM Loss
Criticized/Classified Loans to Risk Funds	1.00 : 1.00	0.70	0.70	0.74	0.80
Maximum additional Criticized/Classifed Loans			$21MM	$17MM	$12.5MM
Adversely Classified Loans to Risk Funds	0.50 : 1.00	0.35	0.35	0.37	0.4
Maximum additional Adversely Classified Loans			$11MM	$8.5MM	$6.3MM

- Based on 12/31/20 numbers, VEDA could only have $11 million of loans move into Adversely Classified Status without triggering the 0.50 : 1.00 covenant. <u>As an example, if two of the larger proposed broadband projects were to become severely impaired, VEDA would quickly violate this covenant.</u>

Program Enhanced with Subordinated Debt

- The proposed program enables VEDA to fund 90% of project costs, or a total program cost of $40MM assuming all projects require the maximum possible financing support.

- If additional support in the form of subordinated debt were available, at a level of 30% for example, VEDA could leverage its available resources to expand the overall program by 50%, to $60MM.

	Current Proposal		Proposal with Additional Support	
	Program Size	**Funding Allocation**	**Program Size**	**Funding Allocation**
VEDA Loan Capability	$ 36,000,000	90%	$ 36,000,000	60%
Equity Requirement	$ 4,000,000	10%	$ 6,000,000	10%
Subordinated Debt Support	$ -	0%	$ 18,000,000	30%
Total Program Scope	**$ 40,000,000**	**100%**	**$ 60,000,000**	**100%**

- This support would greatly reduce VEDA's risk profile in the program by lowering the total exposure to each project, while increasing the total number of projects supported and reducing concentration risk.

- This model more closely follows the typical market approach to funding, and the subordinate debt could potentially carry a lower debt service requirement in the earlier stages of the project than VEDA loans require. The goal is for this financing to be a short-term solution until the projects are operating at the capacity necessary to pursue traditional bond financing.

Other Thoughts:

Credit Enhancement Language: The bill appropriates $1,260,000 to VEDA for loan loss reserves and 'to enable the Authority to provide credit enhancements to assist CUDs with securing financing through other lenders.' What is intended here as a credit enhancement with other lenders? And would any amounts used for this purpose be excluded from the calculation of shared loan losses with the state?

Deferral of Payments: The bill would allow for 36 months of deferred payments versus 24 months as currently written. VEDA believes that each project needs to be structured based on the specific attributes and requirements of the individual project. Our recommendation is to not define the number of months for payment deferral in Statute.

Maximum Loan Amount: The proposed $8 million cap per loan could potentially be utilized several times by a single entity, which could significantly increase the credit concentration within the program. VEDA is looking to clarify the intentions of the maximum loan size in this context.

Capitalized Interest: VEDA recommends including capitalized interest as an eligible use of loan proceeds to avoid the loan amount and program size from exceeding the program caps contemplated.