VERMONT

VERMONT ECONOMIC PROGRESS COUNCIL

Date: Wednesday, February 17, 2021

Re: FAQ on Bond Anticipation Notes

To: Senator Sirotkin, Chair, Senate Committee on Economic Development, Housing, and General Affairs

From: Megan Sullivan, Executive Director, Vermont Economic Progress Council

What is a Bond Anticipation Note?

- A Bond Anticipation Note (BAN) is temporary indebtedness incurred in anticipation of the sale and issuance of bonds which have been approved by the municipality's voters for the purpose of financing the costs authorized by the vote, subject to term limitation and principal payment requirements upon renewal, as established by law (see 24 V.S.A. § 1773 Temporary Loans)

- BANs function as an extension of the long-term borrowing that the municipality anticipates incurring.

- They provide immediate cash flow which allows the municipality to pay project costs as they are incurred.

Why do municipalities use BANs?

- Allows the municipality to begin financing for the project in advance of the Vermont Bond Bank's next scheduled cycle. Currently, the closings occur on February 28 or July 31. July 31 is in the middle of the construction season, so municipalities may prefer to initiate construction prior to that date and use a BAN to pay for costs as they are incurred.

- Financing of the project is needed in stages, but the municipality wants to issue permanent financing all at once.

- The municipality wishes to combine several smaller projects into one bond.

- BANs are used in TIF Districts. The 2015 TIF Rule (not statute) limits the use of BANs only in its consideration as the first incurrence of debt. That is something that VEPC will likely propose changes in a draft proposal for an updated TIF Rule.

Why would BANs be used in TIF as a qualifying incurrence of debt?

- Provides for earlier access to the tax increment needed to repay the bond.

- The interest accrued on a BAN can be rolled into the permanent financing, rather than relying on the TIF Fund cash flow (or lack of cash flow) to make that payment.

- Delays the first principal payment following debt incurrence.

- Allows the municipality to begin their project during the construction season and subsequently receive permanent financing during the next scheduled cycle with the Vermont Bond Bank.

- The municipality may wish to combine financing for the TIF portion of the project with financing for other smaller projects within the municipality into one large bond, paying a portion of that bond with a percentage that is the TIF portion.

- To complete preliminary studies or engineering in order to bid a project and determine the exact amount required for bonding rather than issuing bonds in excess of project needs.

- To complete preliminary phases of a project without incurring interest costs on bond amounts for future phases.

- To begin a project pending approval of grants or fundraising sources that could decrease the total bond amount required.

- Potential to reduce total interest costs incurred to be covered by tax increment.

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