



Testimony to VT Senate Committee on Government Operations re H.881

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Good afternoon, Chair Hardy and members of the Committee. I am Emily Stebbins-Wheelock, CFO and Manager of Strategy & Innovation at the City of Burlington Electric Department (BED). I am joined by my colleague Amber Widmayer, Regulatory Specialist. Thank you for inviting us to speak about House bill H.881, to amend the Burlington City charter to increase BED's line of credit. This bill was sponsored by the Burlington delegation in the House. The main purpose of the charter change is to increase Burlington Electric's line of credit from \$5 million to \$10 million. In my testimony I will outline what a line of credit is, why it is important to BED, why BED is requesting that the line be increased, and how the increase will benefit Burlington ratepayers. After these remarks, I will be happy to answer your questions.

A line of credit is a pre-approved loan or "credit facility" in which an organization enters an agreement with a bank to establish a preset borrowing limit. If the organization has a short-term need for cash (or "working capital"), it can draw down any amount up to the preset limit from the line of credit. Any amount drawn down is considered debt. As the debt is repaid, it can be borrowed again.

Because a line of credit, if drawn upon, is a form of borrowing or debt and because all forms of borrowing or debt must be authorized by voters, having an explicit provision for a BED line of credit in the City of Burlington charter allows BED to maintain the line without seeking voter approval through a ballot item year after year.

Burlington Electric has maintained a \$5 million line of credit since 2007. The line is important to BED for two reasons. First, it gives us ready access to a source of working capital in case we need it. BED has no plans to access the line of credit. We develop a cash flow forecast as part of our annual budget and every month during the fiscal year we monitor our cash position to help ensure we have sufficient cash to cover our obligations. BED last drew down the line of credit in 2009, in the wake of the financial crisis, and we do not plan to borrow against it again. That said, the line of credit provides important assurance that BED could access working capital quickly if an unexpected need arose or if it was advantageous to us to do so.

The second reason the line of credit is important relates to BED's credit rating. BED is rated by Moody's Investors Corporation separately from the City of Burlington. One of the metrics Moody's uses in our rating is "days cash on hand." The line of credit is not considered equivalent to cash, but it is noted in our rating report and considered qualitatively in our rating.

Since the current line of credit limit was set at \$5 million in 2007, BED's operating expense budget has changed significantly. In 2007, \$5 million represented about 50 days' cash on hand for BED. Today, as a

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result of inflation, it represents only about 32 days cash on hand. At \$5 million, the line therefore provides less value to BED than it did when first established.

This is why BED put forward a ballot item on Town Meeting Day to raise the limit to \$10 million. Increasing the line would provide access to an amount of working capital commensurate with the current size of our operating budget, with some room for growth. The Burlington Electric Commission, Board of Finance, and City Council each approved the ballot item unanimously.

BED is grateful to the citizens of Burlington for approving the March 2024 ballot item overwhelmingly, with 73.96% voting in favor.

The bill before your Committee, H.881, makes only three substantive changes to the Burlington City charter, as approved by voters. First, the line of credit limit is raised from \$5 million to \$10 million, for reasons I have just discussed. Second, "liquidity" is added as a purpose of the line, in reference to its bearing on our credit rating as I also explained. Third, there is new language that makes explicit that any borrowing against the line will be repaid by Burlington Electric from BED revenues. Any borrowings against the line would be a general obligation of the City, but BED has always repaid past borrowings and would intend to do so in future. The new language clarifies that expectation.

Next, I'll discuss how this charter change would affect Burlington ratepayers. As you know, a strong credit rating is important for a state or municipality to keep its cost of capital as low as possible. Burlington Electric's credit rating was affirmed by Moody's in December 2023 as A3 with a stable outlook. As an electric utility, BED is a capital-intensive enterprise, with many fixed assets to maintain to support safety and reliability. A strong credit rating helps us issue debt to finance capital improvements at attractive interest rates, to the benefit of ratepayers. With the line of credit, BED gets access to working capital in the event we need it and a qualitatively positive effect on our credit rating. We pay a minimal fee to maintain the line of credit and pay no interest unless the line is drawn down. Without the line of credit, to obtain a similar level of access to working capital or liquidity, BED would have to increase its cash reserves, most likely by raising rates for electric service. Therefore, all things being equal, increasing the line of credit should reduce pressure to increase BED's rates. Having the line of credit available, unused, helps BED's credit rating at a very low cost and provides access to working capital if ever needed.

Burlington Electric's current line of credit expires at the end of June 2024, and on April 8, 2024 we issued a request for proposals (RFP) soliciting interest from banks and financial institutions to replace it. We have noted in the RFP that the current limit on the line of credit is \$5 million but that there is a pending charter change to increase it to \$10 million. We are asking responding firms to provide pricing at both the \$5 million and \$10 million level. Burlington Electric would greatly appreciate the Committee's support in advancing this bill to allow the charter change to become law prior to June 30, 2024. This would allow BED immediate access to the increased limit on the line and all the benefits that will accompany that.

Thank you again for the opportunity to address the Committee this afternoon. I would be happy to answer any questions.