To: Representative Teddy Waszazak

From: Josh Hanford, Director of Intergovernmental Relations; Samantha Sheehan, Municipal Policy and Advocacy Specialist

Date: January 24, 2025

RE: Municipal Finance: Lowering Property Taxes and Improving Emergency Response

As we begin the new legislative biennium, we look forward to working in partnership with you to help Vermont's cities and towns meet the functions of today's local government and take the action needed to solve the challenges of the 21st century. This memo outlines new services available through VLCT to help communities capture state and federal investments, and a list of supportive legislative actions recommended by VLCT's Municipal Operations Support team and our partner the Vermont Bond Bank.

Municipal Operations Support at VLCT

The Municipal Operations Support team at VLCT provide all levels of support to municipal officials for the management and administration of local government including finance, operations, project development, and grants research, applications, and reporting. This support has been critical for many low resource towns in their recent response to major flooding events, for the deployment, management and reporting of ARPA funds, in identifying and capturing other state and federal investments, and in the general daily management of their towns which is more complex than ever before. The Municipal Operations Support team was created in 2024 and made possible by a $1 million USDA RD grant. In turn, this new capacity at VLCT has assisted Vermont communities in capturing millions more for local investment. The assistance provided by VLCT's experienced staff has included:

- **North Hero (Population 939; MHI $84,375):** The North Hero water system has several million dollars' worth of projects to complete. With VLCT's help, **the Town closed its $1.5 million funding gap** for its water distribution storage tank project with NRBC Catalyst and CDS grants. VLCT coached the Town on aligning grant activities to reduce duplicative efforts and with planning for future project management capacity.
- **Middletown Springs (Population 794; MHI $63,558):** The Middletown Springs library is owned by the Town, but maintenance and upkeep historically have been the responsibility of the Library Trustees. The library sought VLCT assistance to navigate the process of completing a major space expansion with a Town-Library collaboration. A second consultation focused on preparing for project and grant management and construction cash flow. **The Library won a $1,293,384** Department of Libraries Capital Grant.
- **South Burlington (Population 20,292; MHI $83,750):** South Burlington is investing in several major transportation projects to support its New Town Center. VLCT helped the City identify potential federal grant sources for the projects. **The City was awarded an $8,094,234 grant**

from the US DOT Reconnecting Communities & Neighborhoods grant for construction of a bicycle and pedestrian bridge over I-89. Construction begins in 2025.

VLCT and Vermont Bond Bank Recommendations for Policy Action

Building flood and climate resilient communities requires healthy municipal finances. VLCT in partnership with the Vermont Bond Bank and in collaboration with other partners has developed recommendations for legislative actions that would: promote prudent fiscal management for Vermont municipalities; relieve and stabilize upward pressures on local property tax bills; and improve the readiness of local communities to respond to major disasters and to build climate resilient public infrastructure for the future.

Unassigned Fund Balance

We recommend action to allow municipalities to employ the prudent fiscal practice of providing for unassigned fund balance within the municipal general fund budget. The creation and maintenance of a healthy unassigned fund balance is a broadly encouraged industry best practice within the world of government accounting. An Unassigned Fund Balance, sometimes called a "rainy day fund", is simply the difference between assets and liabilities after other classifications have been accounted for. Allowing Vermont municipalities, the explicit authority to establish and use an Unassigned Fund Balance would assist in cash flow management, stabilize the tax rate, improve emergency response and significantly strengthen their financial resiliency in the case of unexpected, negative economic trends such as rising inflation, escalating tax delinquency, and high interest rates.

A strong Unassigned Fund Balance improves grant readiness by making flexible monies available for local matches when grant opportunities arise and improves the municipalities' borrowing position, saving taxpayers money on the cost of municipal debt. The City of Burlington has long utilized its charter authority to maintain substantial Unassigned Fund Balance reserves, and in 2012, Burlington took extraordinary action with a voter approved fiscal stability bond to restore the City's Unassigned Fund Balance. The City estimates that since 2012 taxpayers have saved over $44 million on debt service a result. This sound financial practice should be available to other communities of all sizes and regardless of charter.

- Recommend Sec. 1. 24 V.S.A. § 1585 is added to read:

  § 1585. UNASSIGNED FUND BALANCE.
  Money so voted at an annual or special meeting that is not expended by the end of the municipality's fiscal year, shall be under the control and direction of the legislative branch of the municipality and may be carried forward from year to year as an unassigned fund balance. Unassigned fund balances may be invested and reinvested as are other monies received by the town treasurer and may be expended for any public purpose as established by the legislative branch of the municipality.

Emergency Borrowing

Vermont municipalities have become increasingly familiar with complex and extensive processes required to access emergency funding and reimbursement from state and federal programs including FEMA Public Assistance. In the wake of flooding and major weather events municipalities cannot wait to rebuild vital town infrastructure or to restore municipal services including drinking water and wastewater treatment. Currently, state law substantially limits the authority of local legislative bodies to acquire funding for emergency response as they can only take on debt for up to one year without a town vote. This puts communities in a precarious position if their emergency expenses are extensive and they have not received federal reimbursement within one year. VLCT and the Vermont Bond Bank request a new authority to borrow for up to a five-year repayment period in the case of an all-hazards event.

- <u>Recommend Sec. 2. 24 V.S.A. § 1790 is added to read:</u>

  § 1790. EMERGENCY MUNICIPAL BORROWING.
  A municipal corporation, by its legislative branch, may borrow money by the issuance of its notes or orders for the purpose of paying expenses of the municipal corporation or for public improvements associated with an all-hazards event as defined in 20 V.S.A. § 2 or state of emergency declared pursuant to 20 V.S.A. §§ 9 and 11. Such notes or orders, however, must mature within five years from the date of issuance or, if longer, a term not to exceed the reasonably anticipated useful life of the improvements or assets financed by such notes or orders.

Level Debt Service

State law limits municipal bonding authority in such a way that the debt service must be structured so that the highest repayment amount often falls in the first year of the bond repayment, or for serialized bonds, the highest repayment amounts happen together over several years early in the debt service. This is because statute requires loans to be **level principal**. Debt payments for these borrowings start high and decrease yearly as the cost of interest goes down. To improve predictability for municipalities and for taxpayers, VLCT and the Vermont Bond Bank request a change to allow for flexibility in bond repayments **to include level debt** option. This is more within the norms of government borrowing nationally. Members of the Vermont School Board Association and Superintendents Associations have also expressed support for this change.

- <u>Recommended Language:</u> 24 V.S.A. § 1759. Is amended to read:
  § 1759. DENOMINATIONS; PAYMENTS; INTEREST

(a)(1) Any bond issued under this subchapter shall draw interest at a rate not to exceed the rate approved by the voters of the municipal corporation in accordance with section 1758 of this title, or if no rate is specified in the vote under that section, at a rate approved by the legislative branch of the municipal corporation, such interest to be *payable as the legislative branch may determine*. Such bonds or bond shall be payable serially, the first principal payment to be deferred not later than from one to five years after the issuance of the bonds *and subsequent principal payments or debt service payments, which include both principal and interest payments, to be continued annually in substantially level or declining amounts, as determined by the legislative branch* so that the entire debt will be paid in not more than 20 years from the date of issue.

(2) In the case of bonds issued for the purchase or development of a municipal forest, the first payment may be deferred not more than 30 years from the date of issuance thereof. Thereafter such bonds or bond shall be payable annually *in substantially level or declining annual debt service as the legislative branch shall determine so* that the entire debt will be paid in not more than 60 years from the date of issue.

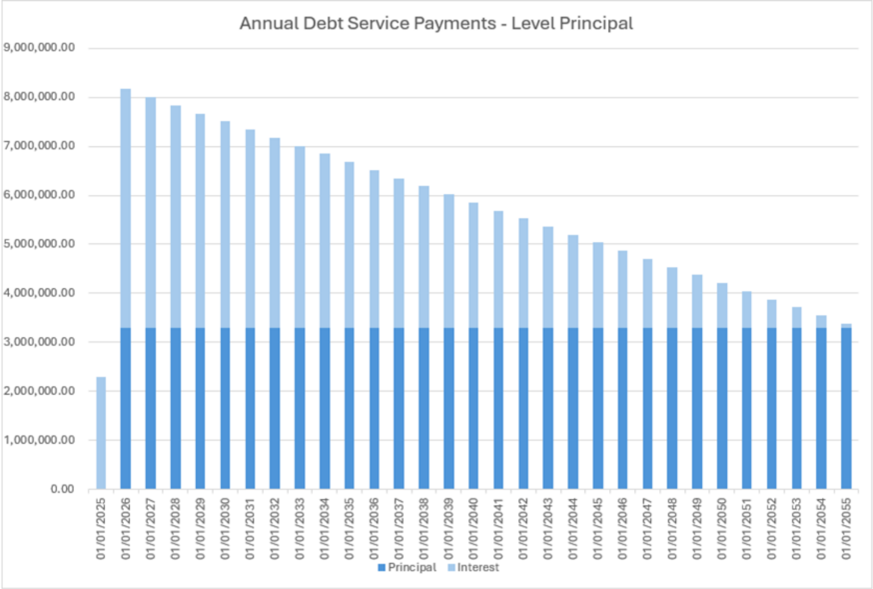
(3) In the case of bonds issued for any capital project that has a useful life of at least 30 years, the entire debt will be paid in not more than 30 years from the date of issue.

(b) General obligation bonds authorized under this subchapter for the purpose of financing the improvement, construction, acquisition, repair, renovation, and replacement of a municipal plant as defined in 30 V.S.A. § 2901 shall be paid serially, the first payment to *be deferred not later than from one to five years after the issuance of the bonds and subsequent principal payments or debt service payments, which include both principal and interest payments, to be continued annually in substantially level or declining amounts, as determined by the legislative branch so that the entire debt will be paid in not more than 40 years from the date of issue*, notwithstanding other permissible payment schedules authorized by this section.

Level Debt Service Modeling:

The Vermont Bond Bank has come up with two hypothetical examples showing a school district in need of $99M of capital to build a new school campus. The first graph (on top) is **level principal** and shows the decreasing total principal and interest payments over time as interest expense decreases. The principal expense is 3.3M per year for the life of the 30-year bond. The annual repayments would start above $8M per year and decrease to above $3M per year. The second graph (on the bottom) is **level debt** and shows the same principal and interest cost each year over 30 years with the proportion of payment related to principal increasing over time. The annual repayments in this example would be around $6M per year every year for the life of the debt service.

Level Principal Example:



Level Debt Example: