



Vermont  
Bond Bank



# LEVEL DEBT SERVICE FLEXIBILITY FOR GOVERNMENTAL UNITS

May 7, 2025

# Concept

- Debt authorization from school districts and municipalities as a “bond” requires level principal payments under current statute
  - Level principal payments result in year 1 payments being the highest for the life of the debt service
  - This differs from a standard mortgage in which the borrower makes equal payments every year for the life of the loan, which is called “level debt service”
  - Under statute, flexibility exists for level debt service but governmental units must authorize a note vs bond at the time of authorization, although both are general obligations of the borrower
  - Rating agencies consider level debt service to be a conservative approach to debt structuring and it is the underlying assumption of their rating methodologies
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- VLCT and the Vermont Bond Bank advocated for level debt service to be included in H. 397 but it was removed prior to cross over
  - Lack of clarity on the authorization privileges more sophisticated municipalities while **increasing the budgetary impacts of borrowing** for adaptation, resilience, and school projects

# Illustration of Concept

Total payments ~2% higher in level d/s but year 1 payments 20% higher for declining d/s

Total borrowing amount

## DECLINING DS

	Principal	Interest	DS
	<b>1,000,000</b>	<b>503,153</b>	<b>1,448,933</b>
6/30/2025	0	0	0
6/30/2026	0	34,533	34,533
6/30/2027	50,000	40,404	90,404
6/30/2028	50,000	38,332	88,332
6/30/2029	50,000	36,260	86,260
6/30/2030	50,000	34,188	84,188
6/30/2031	50,000	32,116	82,116
6/30/2032	50,000	30,044	80,044
6/30/2033	50,000	27,972	77,972
6/30/2034	50,000	25,900	75,900
6/30/2035	50,000	23,828	73,828
6/30/2036	50,000	21,756	71,756
6/30/2037	50,000	19,684	69,684
6/30/2038	50,000	17,612	67,612
6/30/2039	50,000	15,540	65,540
6/30/2040	50,000	13,468	63,468
6/30/2041	50,000	11,396	61,396
6/30/2042	50,000	9,324	59,324
6/30/2043	50,000	7,252	57,252
6/30/2044	50,000	5,180	55,180
6/30/2045	50,000	3,108	53,108
6/30/2046	50,000	1,036	51,036

## LEVEL DS

	Principal	Interest	DS
	<b>1,000,000</b>	<b>532,104</b>	<b>1,532,105</b>
6/30/2025	0	0	0
6/30/2026	0	36,250	36,250
6/30/2027	32,380	42,796	75,176
6/30/2028	33,789	41,357	75,146
6/30/2029	35,259	39,855	75,114
6/30/2030	36,792	38,288	75,080
6/30/2031	38,393	36,652	75,045
6/30/2032	40,063	34,946	75,009
6/30/2033	41,806	33,165	74,971
6/30/2034	43,624	31,307	74,931
6/30/2035	45,522	29,368	74,890
6/30/2036	47,502	27,345	74,847
6/30/2037	49,568	25,234	74,802
6/30/2038	51,724	23,031	74,755
6/30/2039	53,975	20,732	74,707
6/30/2040	56,322	18,333	74,655
6/30/2041	58,772	15,829	74,601
6/30/2042	61,329	13,217	74,546
6/30/2043	63,997	10,491	74,488
6/30/2044	66,781	7,647	74,428
6/30/2045	69,686	4,679	74,365
6/30/2046	72,716	1,582	74,299

## DIFFERENCE

	Present Value	
	\$	4% DR
	<b>83,171</b>	<b>20,683</b>
6/30/2025	0	0
6/30/2026	1,717	1,651
6/30/2027	(15,228)	(14,079)
6/30/2028	(13,186)	(11,723)
6/30/2029	(11,146)	(9,528)
6/30/2030	(9,108)	(7,486)
6/30/2031	(7,071)	(5,588)
6/30/2032	(5,035)	(3,826)
6/30/2033	(3,001)	(2,193)
6/30/2034	(969)	(681)
6/30/2035	1,062	718
6/30/2036	3,091	2,008
6/30/2037	5,118	3,197
6/30/2038	7,143	4,290
6/30/2039	9,167	5,294
6/30/2040	11,187	6,212
6/30/2041	13,205	7,051
6/30/2042	15,222	7,815
6/30/2043	17,236	8,508
6/30/2044	19,248	9,136
6/30/2045	21,257	9,701
6/30/2046	23,263	10,208

# Suggested Language

20 § 1759. DENOMINATIONS; PAYMENTS; INTEREST

VT LEG #381464 v.2

(Draft No. 2.4 – H.397)  
3/14/2025 - TA - 01:26 PM

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1 (a)(1) Any bond issued under this subchapter shall draw interest at a rate  
2 not to exceed the rate approved by the voters of the municipal corporation in  
3 accordance with section 1758 of this title, or if no rate is specified in the vote  
4 under that section, at a rate approved by the legislative ~~branch~~ body of the  
5 municipal corporation, ~~such~~ the interest to be payable ~~semiannually~~ as  
6 ~~determined by the legislative body of the municipal corporation.~~ Such The  
7 bonds or bond shall be payable serially, the first payment to be deferred not  
8 later than from one to five years after the issuance of the bonds and subsequent

[https://legislature.vermont.gov/Documents/2026/Workgroups/Senate%20Government%20Operations/Bills/H.397/Drafts,%20Amendments,%20and%20Legal%20Documents/H.397~Tucker%20Anderson~%20Draft%202.4,%20203-14-2025%20\(Not%20Passed%20by%20House\)~4-16-2025.pdf](https://legislature.vermont.gov/Documents/2026/Workgroups/Senate%20Government%20Operations/Bills/H.397/Drafts,%20Amendments,%20and%20Legal%20Documents/H.397~Tucker%20Anderson~%20Draft%202.4,%20203-14-2025%20(Not%20Passed%20by%20House)~4-16-2025.pdf)

9 principal payments or debt service payments, which include both principal and  
10 interest payments, to be continued annually in equal substantially level or  
11 diminishing declining amounts, as determined by the legislative body of the  
12 municipality, so that the entire debt will be paid in not more than 20 years from  
13 the date of issue.

14 (2) In the case of bonds issued for the purchase or development of a  
15 municipal forest, the first payment may be deferred not more than 30 years  
16 from the date of issuance ~~thereof of the bond.~~ Thereafter such After any  
17 deferral period, the bonds or bond shall be payable annually in equal  
18 substantially level ~~or diminishing amounts declining annual debt service as the~~  
19 legislative body of the municipal corporation may determine, so that the entire  
20 debt will be paid in not more than 60 years from the date of issue.

21 \* \* \*

1 (b) General obligation bonds authorized under this subchapter for the  
2 purpose of financing the improvement, construction, acquisition, repair,  
3 renovation, and replacement of a municipal plant as defined in 30 V.S.A. §  
4 2901 shall be paid serially, the first payment to be deferred not later than from  
5 one to five years after the issuance of the bonds, and subsequent principal  
6 payments or debt service payments, which include both principal and interest  
7 payments, to be continued annually in substantially level or declining amounts,  
8 as determined by the legislative body of the municipal corporation, so that the  
9 entire debt will be paid ~~over a term equal to the useful life of the financed~~  
10 ~~improvements,~~ but not more than 40 years from the date of issue, ~~and may be~~  
11 ~~so arranged that beginning with the first year in which principal is payable, the~~  
12 ~~amount of principal and interest in any year shall be as nearly equal as is~~  
13 ~~practicable according to the denomination in which such bonds are issued,~~  
14 notwithstanding other permissible payment schedules authorized by this  
15 section.



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