

Local Financing Opportunities to Help Municipalities Recover

Hosted by the Vermont Agency of Commerce and Community Development and the Vermont League of Cities and Towns featuring:

- State Treasurer Beth Pearce
- Chris D'Elia, President of the Vermont Bankers Association
- Michael Gaughan, Executive Director of the Vermont Municipal Bond Bank
- Ted Brady, Deputy Secretary, Agency of Commerce and Community Development

Revenue Impact of COVID-19

According to the Joint Fiscal Office, Vermont is expected to lose at least \$391 million in deferred revenue. The loss represents a total \$204-\$208 million reduction in the general fund for fiscal year 2020, a modest improvement compared to \$230 million in a previous estimate published on March 24. The state education and transportation funds have also seen a significant revenue downgrade, at \$142 million and \$45 million less than forecasted in January for the current fiscal year. (Published April 7.)

Municipal Borrowing Discussion

April 27, 2020

Office of the Vermont State Treasurer

- Interfund borrowing
 - Most efficient and easiest to implement
 - Borrowing from ourselves
 - No cost to taxpayer
- Lines of credit
 - Provides flexibility in drawdowns as needed
 - Cost to set up line (even if not used)
 - Additional cost as funds are drawn down
- Issuing short term debt
 - Revenue Anticipation Notes, Tax Anticipation Notes, Bond Anticipation Notes
 - Fixed period of time
 - Additional cost of issuance (bond counsel, financial advisory fees, rating fees other)
 - Municipal Liquidity Facility now available
 - Vermont has not done a short-term borrowing since FY2003-04
 - Market volatility

State Borrowing Potential Backstops

(in order of preference)

Municipal Options Are Similar (yet different)



- Short Term Credit Facilities
 - Local Banks
 - Banks have had a history of stepping up to the plate in recent natural disasters
 - Have established relationships with municipal entities
 - Available to help now
 - Federal Municipal Liquidity Facility via State (up to 2 years)
 - Lots of unresolved issues
 - Facility not yet operational
- While municipalities can issue debt on their own, the Bond Bank, with a few exceptions has been the mechanism for physical infrastructure projects, but not for short-term or revenue related (RANs, TANs) financing.
- Possible Intermediate Option
 - Community Disaster Loans – FEMA
 - Five-year maturity, renewable up to ten years
 - Provides a path to loan forgiveness under certain conditions
 - Requires coordination with State
 - Need to investigate current FEMA capacity and timelines given the number of state disaster declarations
 - Currently reviewing other options

Recently Announced Municipal Liquidity Facility (MLF)



- The Municipal Liquidity Facility will help state and local governments manage cash flow pressures in their communities
- The Facility will purchase up to \$500 billion of short-term notes directly from:
 - U.S. states (including the District of Columbia),
 - U.S. counties with a population of at least two million residents
 - U.S. cities with a population of at least one million residents
 - Eligible state-level issuers may use the proceeds to support additional counties and cities
 - The Federal Reserve will continue to closely monitor conditions in the primary and secondary markets for municipal securities and will evaluate whether additional measures are needed to support the flow of credit and liquidity to state and local governments.
- Eligible Notes are tax anticipation notes (TANs), tax and revenue anticipation notes (RANs), bond anticipation notes (BANs), and other similar short-term notes.
- Facility will permit purchase eligible notes issued by the State in one or more issuances of up to an aggregate amount of 20% of the general revenue from own sources and utility revenue for fiscal year 2017.
- The State may request purchase of eligible notes in excess of the applicable limit above in order to assist political subdivisions and instrumentalities that are not eligible for the Facility.
- Notes must mature no later than 24 months from the date of issuance.

Municipal Liquidity Facility Issues



- At current eligibility levels, Vermont communities lack direct access to funding
- Beyond one term sheet, no guidance has been issued and facility is not yet operational
 - FAQ Portal- They are currently taking questions online. They will be putting out an FAQ sheet (likely in the next two weeks)
 - Various estimates on when final guidance will be available range from three to six weeks
- Questions to be addressed:
 - Who will manage program for Fed?
 - Pricing terms
 - Acceptable vehicles: General Obligation (GO) and/or Appropriation Debt
 - Potential need for Vermont statutory changes
 - Disclosure issues
 - State credit or municipal credit?
 - Credit implications for State and impact on bonding capacity
 - Relationship with State intercept program
 - Is this the best vehicle for structural deficits?
 - Cost vs. bank lines of credit?
- More information to follow as guidance is received

Community Disaster Loan Authorizing Language



Title 20 : Internal Security And Public Safety

Chapter 001 : Emergency Management
(Cite as: 20 V.S.A. § 35)

§ 35. Community disaster loans

Whenever, at the request of the governor, the president has declared a "major disaster" to exist in this state, the governor is authorized:

(1) Upon his determination that a local government of the state will suffer a substantial loss of tax and other revenues from a major disaster and has demonstrated a need for financial assistance to perform its governmental functions, to apply to the federal government, on behalf of the local government, for a loan; and to receive and disburse the proceeds of any approved loan to any applicant local government.

(2) To determine the amount needed by any applicant local government to restore or resume its governmental functions, and to certify the same to the federal government, provided, however, that no application amount shall exceed 25 percent of the annual operating budget of the applicant for the fiscal year in which the major disaster occurs.

(3) To recommend to the federal government, based upon his review, the cancellation of all or any part of repayment when, in the first three full fiscal year period following the major disaster, the revenues of the local government are insufficient to meet its operating expenses, including additional disaster-related expenses of a municipal operation character. (Added 1975, No. 97, § 2, eff. April 30, 1975.)

Intermediate/Long Term Potential Option for Municipalities FEMA Community Disaster Loan

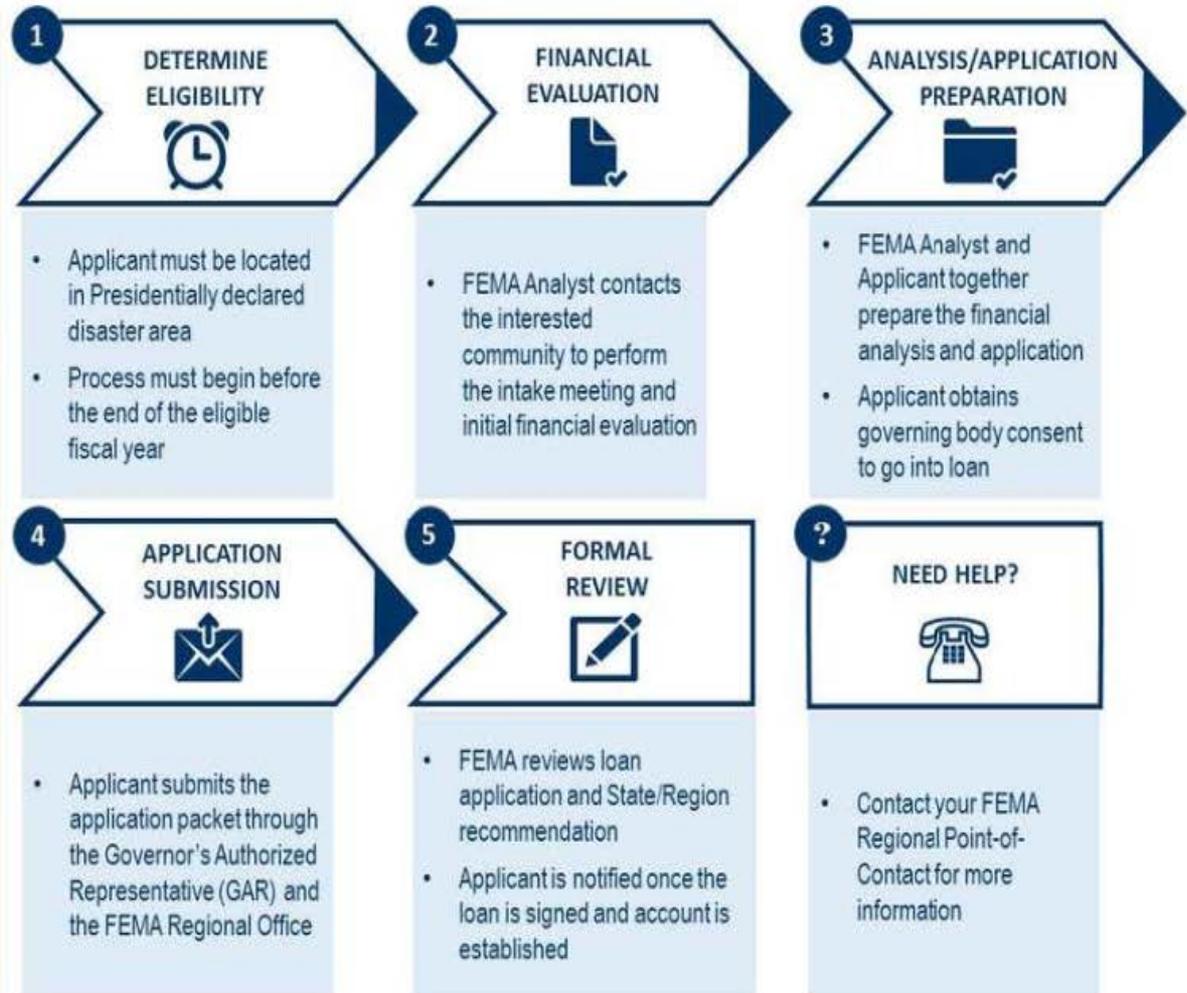


- The Community Disaster Loan (CDL) Program provides operational funding for local governments to continue to operate after a substantial revenue loss caused by a disaster.
- Local governments can apply if:
 - Located in a Presidentially declared disaster area
 - Substantial revenue loss is greater than or equal to 5%
 - Affects the current or subsequent fiscal year
- The loan amount shall not exceed 25% of the annual operating budget of the locality for the fiscal year, up to \$5million
- The term of the loan is five years
 - May be extended to ten years
- In the event of a municipality experiencing a cumulative three-year operating deficit following a disaster, all or part of the loan may qualify for cancellation
- Interest accrues only on portion of funds drawn by applicant
- See Community Disaster Loan Fact Sheet
- [https://www.fema.gov/media-library-data/1549377354379-306d5989736705cf2f921b802d01663e/What is Community Disaster Loan 2.4.19.pdf](https://www.fema.gov/media-library-data/1549377354379-306d5989736705cf2f921b802d01663e/What%20is%20Community%20Disaster%20Loan%202.4.19.pdf)

FEMA Community Disaster Loan Process

COMMUNITY DISASTER LOAN

PATHLINE TO PARTICIPATION



Short-Term Lending Solutions

Chris D'Elia
President

Vermont Bankers Association

Long-Term Lending Solutions

Michael Gaughan
Executive Director
Vermont Municipal Bond Bank



Vermont
Bond Bank



COVID-19 STRATEGY

Communication

Partnership

Data



VASBO



Vermont
Bond Bank



Capital Financing Programs

Clean Water & Drinking Water State Revolving Funds in Partnership w/DEC

- Announced suspension of *SRF payments* between June 1, 2020 and May 1, 2021 on April 3rd
- Suspension defers principal payment but does not forgive, although no admin fee or interest will be charged in interim
- New amortization schedule will be distributed at end of suspension period holding maturity date constant
- Principal payments can be made as planned without penalty
- Contact DEC with unique considerations
- Continuing to accept applications for new planning and construction projects as usual

COVID-19 Responses

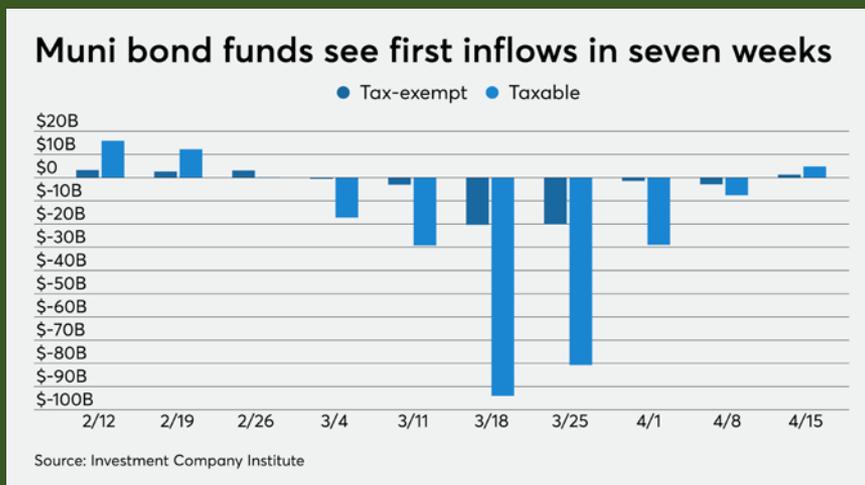
Pooled Loan Program

- Sent e-invoices to all borrowers for May 1st payment within Pooled Loan Program
- Accepting applications for summer loan pool (due May 1st) via online portal (e-signature)
- Market conditions and borrower considerations will require flexible closing date
- Bond Bank will conduct conference call with applicant pool to review timeline after receipt of applications
- Continuing to monitor market for refunding savings as available
- Above activities market dependent...

Municipal Market Update



Source: Schwab



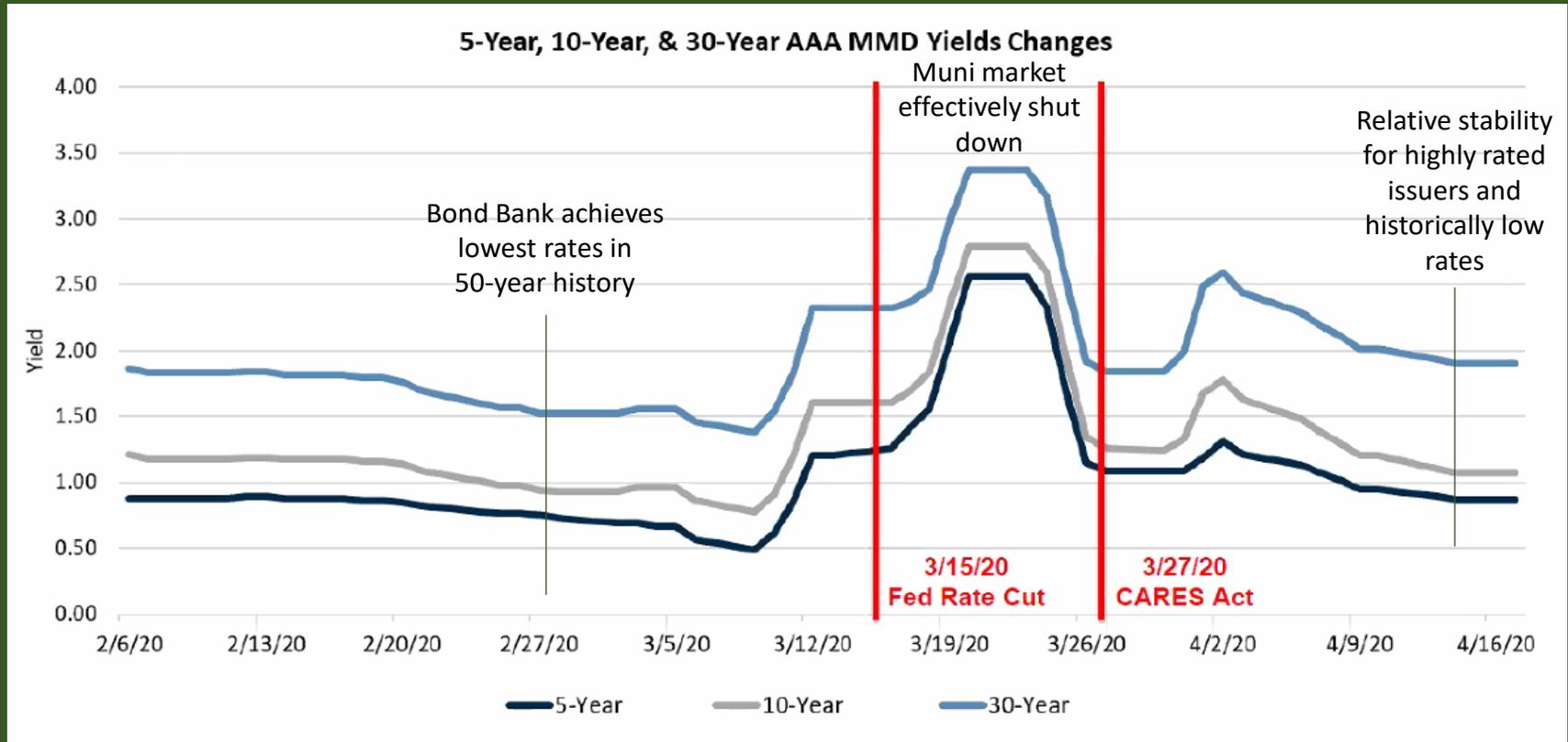
Source: Investment Company Institute



Daniel Hertzberg

- Municipal market is stabilizing
- Issuance calendar beginning to grow with rates near historic lows, although continued volatility expected
- Anticipating cautious access to market moving forward for highly rated entities like the Bond Bank

Municipal Market Update



Source: Raymond James

Borrower Considerations for Capital Project Financing



Immediate

- Disruptions to revenue and expenses for foreseeable future could impact financial plans that led to bond vote—please review
- How will COVID-19 impact construction timing and length of season?

Future

- Identify capital projects and prioritize by type (i.e. transportation, recreation, water / wastewater, etc...)



- Expectation of continued market interventions to keep rates low
- Possibility of stimulus or increased flexibility with existing infrastructure programs in model of ARRA (ex. Recovery Zone Economic Development Bonds, increased SRF subsidy, etc...)

Visit vtbondbond.org for up to date announcements and contact information

Disaster Grant Funding

- CARES Act Community Development Block Grant -\$4.25 million for Vermont (Burlington also received a small allocation)
- Northern Border Regional Commission - \$4 million for economic development projects – Deadline June 1
- Economic Development Administration \$1.5 Billion in CARES Act funding (compared to about \$250 annual appropriation)
- CARES Act Coronavirus Relief Fund (Vermont received \$1.25 billion) – Administration and Governor working together to identify how best to use the funding
- FEMA Public Assistance Program (<https://www.fema.gov/news-release/2020/03/19/coronavirus-covid-19-pandemic-eligible-emergency-protective-measures>)
- Community Resource Center at ACCD.VERMONT.GOV

Questions

Sign up for the Economic and Community Response
Newsletter @ <https://accd.vermont.gov/covid-19/business>

Send questions to commerce.covid19@Vermont.gov