Vermont League of Cities & Towns

To: Chair Brian Collamore, Senate Committee on Government Operations

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

Date: April 10,2025

RE: Lowering Property Taxes and Improving Emergency Response for All Hazard Events

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.

Background on Municipal Finance Sections in Bill H.397

The House Committee on Government Operations and Military affairs first amended all three of these proposals (Unassigned Fund Balances, Emergency Borrowing, and Level Debt Service) into bill H. 397. Later, the House Committee on Ways and Means removed the provision related to Level Debt Service.

In bill H. 397 an Act relating to miscellaneous amendments to the statutes governing emergency management and flood response, VLCT advocates that you support the inclusions of Section 10: Unassigned Fund Balances and Section 11: Emergency Borrowing; All-hazard Events or State of Emergency, and that you restore Section 12: Denominations; Payments; Interest which relates to Level Debt Service.

Section 10: Unassigned Fund Balance

We recommend 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.

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.

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Allowing Vermont municipalities the explicit authority to establish and use an Unassigned Fund Balance would:

- assist in cash flow management
- stabilize the local property tax rate
- improve emergency response
- significantly strengthen municipalities financial resiliency in the case of unexpected, negative economic trends
- Improve grant readiness by making flexible monies available for local matches
- improve the municipalities' borrowing position, saving taxpayers money on the cost of municipal debt.

Section 11: 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.

Proposal: 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. This provision is supported by members of the Vermont School Board Association and Superintendents Associations.

Allowing municipalities the option to structure Level Debt Service would:

- improve predictability for municipal budgets
- stabilize local property tax bills
- lower the first years repayment amounts for emergency borrowing pending reimbursement
- be more within the norms of government borrowing nationally
- is supported by members of the Vermont School Board Association and Superintendents Associations

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<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 <u>*payable as the legislative branch may determine*</u>. 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 <u>*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*</u> 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 <u>*in substantially level or declining annual debt service as the legislative branch shall determine so*</u> that the entire debt will be paid in not more than 60 years from the date of issue.

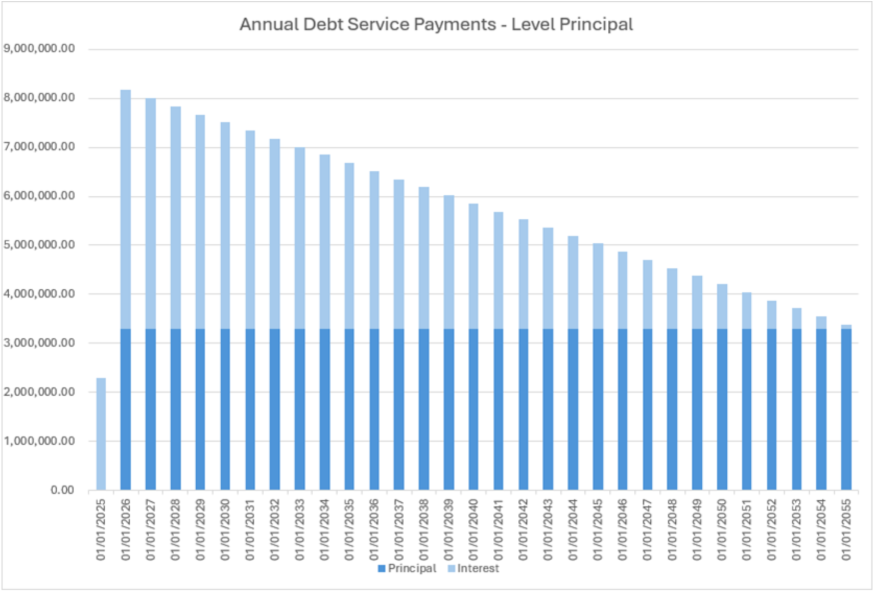
(3) In the case of bonds issued for any capital project that has a useful life of at least 30 years, the entire debt will be paid in not more than 30 years from the date of issue.

(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 <u>*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*</u>, notwithstanding other permissible payment schedules authorized by this section.

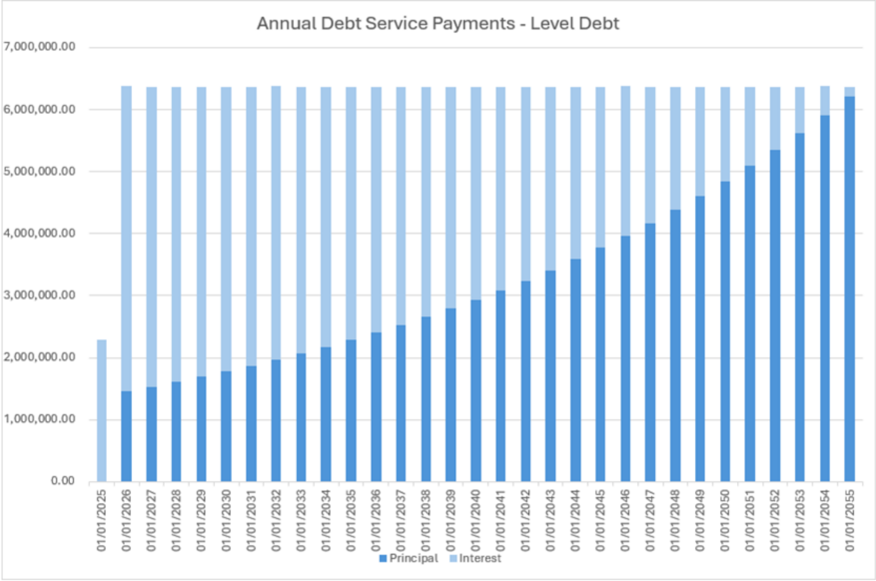
<u>Level Debt Service Modeling</u>

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 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:



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