



America's Small Town Capital

DATE: February 16, 2022

TO: William Fraser, City Manager & Management Team
Mayor and City Council Members

FROM: Kelly Murphy, Finance Director

SUBJECT: FY23 Bond FAQ

As we approach Town Meeting Day and in preparation for the Public Hearing on 2/23/2022, the Finance Department has put together this FAQ to share information with the community on the impact of proposed bonds. Accompanying this memo is a summary of current debt and the impact of new debt service.

What is a bond, what are the terms, what is the process?

A bond is a loan, used for long term financing, typically 20 years. The general rule of thumb being that the term cannot exceed the useful life of the equipment or project (up to 30 years). Funding is used for roads, bridges, sidewalks, streetscapes, water projects, sewer projects, energy efficiency projects, and equipment. Advantages to using the Vermont Municipal Bond Bank (VMBB) include: AA+ rating with low interest rates passed along to borrowers; VMBB provides technical expertise in organizing, structuring and pricing bonds; economies of scale in accessing the capital markets; no upfront or ongoing fees; streamlined process from application to receipt of funds; active market monitoring for refinancing opportunities with savings passed on to borrowers; terms of financing and amortization will always match (i.e. no "put" or balloon maturity). Projects and equipment are pooled in two offerings through the VMBB in the winter (January) and summer (June). To enter either of these offerings, the entities must submit an application to VMBB (prior to January or June). VMBB approves applications. Bonds are brought to market and interest rates are locked in. There are semi-annual interest payments on May 1st and November 1st, with annual payment of principal on November 1st.

What are Voters being asked to consider at Town Meeting Day for FY23? How much and for what? What does it mean if I vote yes at Town Meeting?

On March 1, 2022 Voters are being asked to authorize borrowing up to the amount cited on the ballot for a given project.

- \$7,200,000 for the reconstruction of East State Street;
- \$1,815,000 for highway, recreation park, and building infrastructure improvements;
- \$2,000,000 for the purchase of approximately 138 acres of land formerly the Elks Club, at 203 Country Club Road;
- \$16,400,000 for sewer systems upgrade to the Water Resource Recovery Facility on Dog River Road

This action authorizes borrowing, it is the first step to securing funding. It is, however, conceivable that if authorization is granted, debt may not be incurred if a project does not move forward. At this point interest and principal payments are estimates based on current information for voters to consider, this will not be “officially” set until we get voter authorization, the bond is issued (and rates are locked in), and the project is underway. We have budgeted for what will likely come to pass in FY23. Depending on timing the rest of the debt will come online in FY24, and FY25.

What are the funding streams for debt service? What will the impact be on the General Fund (property taxes) and other funds (utility rates) be?

Project payments are factored into the various budgets, but are dependent on the timing of the project and the issuance of the bond. As rates are locked in and project timelines finalized, payments will be reflected in future budgets.

FY23 Bond Funding Allocations:				
	General Fund	Water Fund	Sewer Fund	Total
\$7,200,000 East State Street	4,000,000	1,600,000	1,600,000	7,200,000
\$1,815,000 Infrastructure Improvements;	1,815,000	-	-	1,815,000
\$2,000,000 Elks Club (203 Country Club Road)	2,000,000	-	-	2,000,000
\$16,400,000 sewer system upgrade - Water Resource Recovery Facility on Dog River Road	-	-	16,400,000	16,400,000
Total Fund/Bonds	7,815,000	1,600,000	18,000,000	27,415,000
Note: East State Street in not projected to begin until FY24. Of the \$27,415,000 requested for borrowing \$3,815,000 will be General Fund in FY23. Once more, it is likely, that \$16,400,000 for the sewer system upgrade will be offset by grant funding.				

That being said, currently we have \$125,934 booked in the General Fund for the initial interest for associated projects (i.e. infrastructure, recreation purchase, and TIF financing). The General Fund portion of the East State Street project will come online in FY24. Voters are voting on the amount to be raised by property taxes not water and sewer budgets, however, we are seeking voter authorization for debt associated East State Street and Phase 2 of the Water Resource Recovery Facility and are providing context for payments.

What is our debt service policy? How will new debt service impact policy thresholds or ratios? How does this compare to debt service limitations in State Statute?

This policy and others can be found in the City Council’s Handbook, posted online. Debt ratios are as follows:

- Total direct debt service (principal and interest) for Government Activities (General Fund and other Governmental Activities) of the City will not exceed **8.2%** of the total budgeted revenues for Governmental Activities.
- Total direct debt service (principal and interest) for the City as a whole (Governmental Activities and Business Activities) of the City will not exceed **15%** of the total budgeted revenues for Governmental Activities.

We are within range of policy. There are, however, years when we are potentially to be above threshold. In future budget cycles we will not be proposing new debt until we can pay down current debt. Requests this year are the result of delays and pent-up demand to get projects done.

	General Fund		City-Wide	
Fiscal year	Percentage	Limit	Percentage	Policy Limit
21	5.35%	8.20%	11.42%	15.00%
22	5.30%	8.20%	12.84%	15.00%
23	5.61%	8.20%	11.81%	15.00%
24	8.27%	8.20%	17.87%	15.00%
25	8.17%	8.20%	17.47%	15.00%
26	7.94%	8.20%	15.34%	15.00%

Note: Future revenues are based on current grand list growth year over year or .5%. City-wide we've account for the full debt service to account for the worst case scenerio, however, it is likely given how federal funding is flowing that we will recieve grant funding that will off set debt service.

Additionally, we are well within range when State Statute debt limitations are considered. Per 24 VSA §1762, which says, “shall not exceed 10 times the amount of the grand list.” The grand list value for 2021 for FY22 property tax rate setting was \$879,938,298, multiplying that by 10, allows for \$8.8 billion in total projects. With the proposed additions we are well below limitations established in State law.

What am I looking at when I look at the attached summary?

The accompanying spreadsheet illustrates debt service for City debt from FY22-FY226. Existing loans with original amount and maturity dates are called out. Details are provided by fund. Highlighted figures on the General Fund tab indicate, either what’s been booked in the budget in FY23 or the total amount of debt service with ballot items included.