The Village of Old Bennington
Repair, Maintenance, and Financing of Our Roads

Background

Roads

In 2019 the trustees engaged MSK Engineering and Design to assess the condition of our village roads with the objective of developing a long-term repair and maintenance plan. In its report, MSK concluded several roads needed major reconstruction and most other roads required improved maintenance. MSK estimated that the repairs would cost about $1.6 million excluding increased future costs due to inflation, which it estimated would range from three percent to five percent per year. Based on MSK's guidance, the trustees designated Bank Street and Fairview Street as top priorities for reconstruction. For more details, see the Introduction to the MSK Report as well as the complete MSK Report in the Other Documents section of the Village website.

Taxes

In 2019 the trustees also recognized the need for additional funds to pay for the long deferred maintenance of our village roads. At the time, Treasurer Kathy Wagenknecht noted that village taxpayers paid a lower town tax rate than town residents because they received a credit on their tax bills for the town's road maintenance costs. She also pointed out that the village tax rate for road maintenance costs had long been less than the credit villagers received on their town tax bills, resulting in village taxpayers paying in aggregate about $50,000 less per year in taxes than they would have assuming the village faced roughly the same road maintenance costs as the town.

As a result of these findings, the trustees proposed increasing the village tax rate for road maintenance to equal the town tax rate over a two year period – the first such increase in more than a decade. In fact, village taxpayers as whole paid less in taxes in 2019 than they had in 2003. Voters approved the first increase at our 2019 Annual Meeting. As a result of the Covid-19 pandemic, the trustees deferred proposing a tax increase at our 2020 Annual Meeting. The trustees subsequently proposed the second step of the tax increase in 2021, which voters approved at the Annual Meeting. It is important to note, however, that the village tax rate for road maintenance has once again fallen short of the credit villagers receive on their town tax bills because we did not increase tax rates at our 2022 and 2023 Annual Meetings as the town did, reflecting higher road maintenance costs. Once again, we are foregoing several thousand dollars per year in necessary road maintenance revenues.

Current Situation

Bank Street

In exploring grant opportunities for the reconstruction of Bank Street, we learned that the state only provides reconstruction grants for Class 2 Roads. At the time, only Monument Avenue and Elm Street were classified as Class 2 Roads, meaning that Bank Street did not qualify for a state grant. The federal government provides no grants for reconstruction of local roads.

In subsequent months, after conversations with the Vermont Agency of Transportation (VTrans), the village successfully applied to reclassify Bank Street as a Class 2 Road. Unfortunately, the state rejected our grant applications for fiscal years 2021, 2022, and 2023. Given the likelihood of receiving future grant money as well as disruptions related to the Covid-19 pandemic, the trustees temporarily deferred plans for reconstruction of Bank Street.

Earlier this year, the Trustees asked MSK for an updated cost estimate for Bank Street in order to submit a new application to VTrans for a reconstruction grant for fiscal year 2024. MSK now estimates reconstruction of Bank Street will cost about $501,000 compared to its 2019 estimate of $281,000. The new estimate is significantly higher than MSK's original estimate even when adjusted for inflation at the upper end of its assumed inflation factor of three to five percent per year, which would be about $340,000. It is also higher than MSK's original estimate adjusted for inflation using the US Department of Transportation's National Highway Construction Cost Index increase of forty-nine percent from the third quarter of 2019 to first quarter of 2023, which would be about $420,000. Road Commissioner Jim Warren is following up with MSK on the reasons behind the significant increase.

Fortunately, our Road Commissioner's persistence has paid off, and for fiscal year 2024 VTrans has awarded the village a $200,000 grant for Bank Street. We will need to use the grant before

December 2025. For cash flow purposes, the village will need to fund the full cost of reconstruction before being reimbursed by VTrans for the grant amount. The village will also need to fund at least twenty percent of the cost from its own funds.

Fairview Street

Given the Bank Street delays as well as the continued deterioration of Fairview Street, the Trustees obtained voter approval to move ahead with its reconstruction at a Special Meeting on March 6, 2023. Voters approved funding the approximately $270,000 cost of reconstruction from our reserves. MSK solicited bids for the project, and the Trustees accepted Weaver Construction's proposal. Weaver completed the project in October. While the village funded the full cost of the construction, village officials noted at both the Special Meeting and this year's Annual Meeting that they intended to explore possible financing opportunities in the future to offset part or all of the reconstruction costs.

The trustees approved a Declaration of Intent to pursue financing for Fairview Street at their November 7 meeting. The Declaration does not commit the village to obtain financing for Fairview Street, but it does provide the village a "safe harbor" for compliance with IRS regulations for tax-exempt municipal securities in the event we decide to finance part or all of the Fairview Street reconstruction costs.

Long-Term Repair And Maintenance Considerations

In its 2019 report, MSK also identified Elm Street, Catamount Lane, and Seminary Lane as high priorities for reconstruction. In addition, it identified Walloomsac Road as medium priority for mill and overlay repaving, which is less expensive than full reconstruction.

In considering a long-term repair and maintenance plan, it seems prudent to prioritize high volume traffic roads such as Elm Street and Walloomsac Road over low volume roads such as Catamount Lane and Seminary Lane. Consequently, the trustees are considering a ten-year repair and maintenance plan based on reconstructing Bank Street in fiscal year 2025, Elm Street in fiscal year 2027, and Walloomsac Road in fiscal year 2029.

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How can We Pay for Repair and Maintenance of Our Village Roads?

To be clear, the village cannot fund reconstruction and increased maintenance of our village roads from current tax revenues. While we recently paid for reconstruction Fairview Street from our reserves, those reserves are projected to decrease from about $427,000 at the beginning of this fiscal year to about $160,000 at the end of the year. That is significantly less than our average reserves of about $220,000 from fiscal year 2010 through fiscal year 2019, when we started increasing our reserves in anticipation of higher road costs.

Nevertheless, it appears that maintaining about $160,000 of reserves is fiscally conservative. For example, our projected year-end reserves will be about eighty-nine percent of annual our revenues, which is higher than the median ratio of about forty-one percent per a leading bond rating agency and significantly higher than the seventeen percent median for Vermont Bond Bank participants (see *2023 Vermont Bond Bank Financial Medians* report at https://www.vtbondbank.org/resource/2023-vermont-bond-bank-financial-medians). Surprisingly, the Town of Bennington's ratio of unassigned reserves to revenues is less than zero.

If we wish to maintain our reserves at about $160,000, there are several ways we can fund repair and maintenance costs: raising taxes, obtaining grants, borrowing money, or some combination of the three.

Raising Taxes

Raising taxes will be an essential part of any long-term reconstruction and maintenance plan even if we receive future grants or obtain loans because the state grant program and at least some loan programs require a twenty percent to thirty percent equity contribution from the village.

Grants

As discussed above, the only grants available to the village for road reconstruction are from the state's Class 2 Road Program. Based on discussions with VTrans, it seems unlikely that we will receive another grant in the near future since we just received a grant for Bank Street.

Loans

Currently, there are only two sources of long-term financing available to the village for road reconstruction: the Vermont Bond Bank and the Vermont State Infrastructure Bank.

The Vermont Bond Bank is a state agency that specializes in providing loans to municipalities through its Pooled Loan and State Revolving Fund Programs. Our Fairview Street project qualifies for consideration for the Pooled Loan Program. The bank funds the program through the issuance of fixed-rate tax-exempt bonds to investors. The bonds are secured by pools of loans to individual municipalities like ours. The bank is rated AA+ so it can offer relatively low interest rates, currently in the three percent to four percent range. See Appendix 1 for a detailed description of the program.

The Vermont State Infrastructure Bank is operated by the Vermont Economic Development Authority in conjunction with VTrans and the Federal Highway Administration. It currently provides loans at an 1% interest rate. Unfortunately, VSIB only provides loans for Class 2 roads, so Fairview Street is not eligible for the program. However, we could seek VSIB loans for Bank Street and other Class 2 village roads in the future. See Appendix 2 for a detailed description of the program.

Potential Scenarios for Financing the Repair and Maintenance of Our Roads

To show the full range of financing possibilities, the following analysis considers two very different scenarios assessing the financial impact on village taxpayers of a proposed Ten-Year Repair and Maintenance Plan. The analysis also considers a third most likely scenario. The plan addresses our major road repair and maintenance concerns as described above and includes reconstruction of Fairview this year, reconstruction Bank Street in fiscal year 2025, reconstruction of Elm Street in fiscal year 2027, and mill and overlay of Walloomsac Road in fiscal year 2029.

The first scenario ("No Borrowing") assumes we finance the full cost Fairview Street, Elm Street, and Walloomsac Road through increased taxes and the cost of Bank Street in excess of the Class 2 Road Program grant through increased taxes. Under this scenario, we would need to increase taxes over current amounts by $155,000 next year and $125,000 every year from fiscal years 2026 through 2030. Moreover, while this scenario leaves us close to our targeted reserves level at the end of the ten-year period, it leaves us with reserves of just over $10,000 in fiscal years 2025 and 2027 and average reserves of about $110,000 over the ten-year period. Considering our routine road maintenance costs, mainly plowing and salting, have ranged from about $10,000 to $75,000 per year over the past thirteen years, maintaining just $10,000 in reserves appears imprudent.

In any case, a tax increase of $155,000 means the tax rate would increase from $0.4042 per hundred dollar valuation to $0.8933 per hundred dollar valuation, more than doubling every taxpayer's bill. For example, on a home with an assessed value of $350,000, the owner's tax bill would increase from about $1,400 to about $3,100.

The second scenario ("Maximum Borrowing") assumes we finance the full cost of Fairview Street and Walloomsac Road through the VBB, the cost of Bank Street in excess of the Class 2 Road Program grant and our required equity contribution of twenty percent through the VSIB, and the cost of Elm Street less our twenty percent equity contribution through the VSIB. Under this scenario, we would need to increase taxes by about $37,000 next year and each year thereafter. A tax increase of $37,000 means the tax rate would increase from $0.4042 per hundred dollar valuation to $0.5209 per hundred dollar valuation, or about a twenty-nine percent increase.

While the required tax rate under the second scenario is substantially less than under the first scenario, it is not clear the village could actually borrow the necessary funds. For example, our debt service to revenues ratio would average about twenty percent over the next ten years. This is four times the VBB median for its borrowers. Moreover, our long-term debt would run from about 200% to 425% of our revenues, which is significantly higher than the VBB median for its borrowers of 41% or a leading rating agency's median for small municipalities of 110%. In light of these medians, our projected ratios appear fiscally imprudent. Therefore, it seems unlikely that any lender would provide us additional loans beyond the Fairview Street loan.

Consequently, a third scenario ("Borrow As Much As Likely Possible") funding Fairview Street with the VBB and funding the remaining construction through higher taxes seems the most viable option from the point of view of potential lenders. However, taxes would increase from \$0.4042 per hundred dollars of valuation to \$0.6409 per hundred dollars of valuation next year and peak at \$0.7197 per hundred dollars of valuation in 2028 through 2030. Those rates represent tax increases of 60% and 80%, respectively, making this also a very challenging option for taxpayers.

The Challenges Ahead

Considering the views of both taxpayers and potential lenders, none of three the scenarios above appears acceptable. Consequently, we face significant challenges in financing necessary road repairs and maintenance. It seems evident that village officials and taxpayers will need to address these issues in the immediate future while soliciting advice and support from BCRC, VLCT, town officials, and other experts. Thoughtful consideration of our situation also suggests that meeting these challenges may be beyond the resources and abilities of a small village managed largely by dedicated volunteers.

One further point. We should ask how we arrived at this situation. Residents often point out that as a small village it seems unfair that we need to maintain three major roads primarily traveled by outsiders at our own expense. However, our assessed value per mile of roads is nearly the same as the town's assessed value per mile of roads, about \$12.6 million per mile. Consequently, if the town can maintain its roads, we should be able to maintain our roads. In the end, it seems our situation results mostly from our yearslong underpayment of road taxes vis-à-vis town taxpayers as described above.

Appendix 1

The Vermont Bond Bank Pooled Loan Program works as follows:

- Twice a year (December/May) communities can apply for a loan and the bank begins its underwriting process.
- After the bank completes its underwriting process (January/June), it approves recommended applications, issues commitment letters, and prices the bonds.
- Shortly afterwards (February/July), the parties close the loans, and the bank disburses the funds to the municipalities.

The requirements for the program are:

- Evidence of voter approval granting authority for the borrowing.
- A legal opinion from local bond counsel stating that the approval process complied with all local, state, and bank requirements.
- Three years of annual reports. The most recent year would need to be audited. Going forward we could continue to provide unaudited financial statements.
- The loan term cannot exceed the useful life of the project. In our case, MSK has told us the useful life of a reconstructed road is 20 years. So, our loan term would be 20 years or less.

What we need to do:

- Decide if we're interested in the program.
- If yes, engage local bond counsel. The bank lists several approved local bond counsels.
- Hold a Special Meeting seeking authorization for borrowing funds.
- If approved by voters, engage an accounting firm to perform an audit.
- Submit our application in May 2024, the earliest practicable date at this point because of the audit requirement.

Appendix 2

The VSIB program works as follows:

- The program covers municipalities, regional development corporations or political subdivisions of the state.
- Proceeds must be used for projects eligible under Title 23 or Title 49 of the United States Code of Regulations, such as:
  - Construction or reconstruction of highways, roads and bridges, and pedestrian facilities.
  - Construction of certain rail transit or public transit facilities.
  - Construction and/or installation of electric vehicle charging stations and natural gas refueling stations available for public use.
- Loan Rates and Terms are:
  - 3% fixed for loans to private sector borrowers.
  - 1% fixed for loans to municipal-type borrowers and for electric vehicle charging stations.
  - Loan term may not exceed 30 years with repayment commencing no later than five years after completion of project; loan terms for electric vehicle charging stations will depend on available cash flow.
  - Required borrower equity contribution to project is 10-20%.
- Fees are:
  - 2% commitment fee.
  - $50 credit report fee (if applicable).
  - $18 flood insurance certificate (if applicable).
  - Appraisal reimbursement (if applicable).
- The application process is as follows:
  - All loan decisions are made by the VSIB Board of Directors.
  - All federal and state environmental permits and other approvals must be obtained for VSIB projects.

- Applicants are advised to discuss their proposed project with VSIB Staff prior to submitting the application.
- Vermont State Infrastructure Bank applications may be obtained from the VEDA office.