



GENERAL OPERATING RESERVE FUND POLICY

Adopted: June 19, 2010,
Revised: February 7, 2017
Revised: June 11th, 2019

Scope: This policy covers the management of the Vermont Municipal Bond Bank's General Operating Reserve Fund.

Purpose

The General Operating Reserve Fund (the "Fund") is an undesignated reserve fund held in a separate custodial account from other Vermont Municipal Bond Bank ("Bond Bank") operating accounts. Investments held by the fund are governed by the Bond Bank's investment policy and under the discretionary supervision of a registered investment advisor and custodian bank. The balance of the Fund as of adoption of this revised policy is \$23.8 million.

The primary purpose of the Fund to enhance liquidity to support the Bond Bank's mission. The Fund may be used in any manner needed to support the Bond Bank's general obligation, including to repay debt issued under the General Resolution. This may include interim liquidity to pay debt service in advance of receipt of intercepts of state aid and/or contributions to Debt Service Reserve Funds under the State of Vermont's moral obligation to the Bond Bank.

The above purpose and uses of the Fund are essential to the strong third-party credit rating assigned to the Bond Bank. The Fund will be managed to maintain or enhance the credit rating of the Bond Bank as the credit rating is essential the Bond Bank's mission to provide access to capital and low cost-capital for Governmental Units throughout Vermont.

The Fund is also used to support on-going operations of the Bond Bank at the direction of the Board of Directors (the "Board"), which includes:

- generating income to administer the pooled loan program;
- providing a source of capitalization for new programs, and;
- facilitating other objectives and goals of the Board.

The Board may also use the Fund to make equity contributions to a bond issue within the pooled loan program. These contributions are made with the intent to lower the rate for borrowers receiving loans through the pooled loan program. Historically, prior contributions are replenished without interest at the time the original bonds were refunded for savings.

In all cases, the Board will adopt budgets that provide for an unreserved and undesignated Fund balance of not less than 3.0 percent and not greater than 7.0 percent of the sum of its operating expenditures and its outstanding loan portfolio.

The Fund balance calculations set forth above may treat intercepted funds that will be deposited in the Fund as on deposit as of the end of a fiscal year if receipt of such amounts has been confirmed by the Bond Bank in consultation with the State Treasurer.

If at the end of a fiscal year the Fund balance is less than 3.0 percent, the Executive Director shall prepare and submit to the Directors a plan for expenditure reductions and/or revenue increases. The Directors shall take action necessary to restore the unreserved and undesignated Fund balance to acceptable levels within a reasonable time frame.

Management

The responsibility for the management of the Fund rests with the Executive Director, in consultation with the Directors.

Performance Evaluation

The Fund shall be monitored on an as needed basis but not less than on an annual basis.

Procedures

The follow sets forth the procedures to be used when relying upon the Fund to support the repayment of debt service under the General Resolution.

1. The following words or phrases have the same meaning as set forth in this paragraph for the purposes of this Procedure:
 - a. "Bond Bank" shall mean the Vermont Municipal Bond Bank;
 - b. "Bond Payment Due Date" shall mean those dates when the Bond Bank's debt service payments are to be paid by the Trustee to investors;
 - c. "Business Day" means those days on which the Bond Bank and its Depository Bank are open for business;
 - d. "Deficiency" means such portion of any Governmental Unit Payment not made by the due date thereof;
 - e. "Custodian" means the banking institution holding Bond Bank cash, cash equivalents, and investments that constitute the General Operating Reserve Fund;
 - f. "Governmental Unit Payment" means a payment due to the Bond Bank by a Governmental Unit on any Municipal Bond or Revenue Bond purchased by the Bond Bank to evidence a loan to such Governmental Unit from the Bond Bank;
 - g. "Governmental Unit Payment Due Date" shall mean 30 days prior to the Bond Payment Due Date;
 - h. "Payment Report" shall be the Trustee's report of all Governmental Unit loans that are due and payable on the Bond Payment Due Date. The Payment Report shall show the payment status of each Governmental Unit's loan and the source for payment, either by Governmental Unit funds or State Intercept;

- i. "State Intercept" shall mean those State Payments due a Governmental Unit that have been determined to be eligible for intercept as set forth in 24 VSA §4555; and,
- j. "Trustee" shall mean the trustee appointed under the Bond Bank's General Bond Resolution adopted May 3, 1988, as amended, currently U.S. Bank National Association.

2. General Operating Fund Procedures as they relate to the Bond Payment Due Date are as follows:

- a. Prior to or on the fifth (5th) Business Day before the Governmental Unit Payment Due Date and continuing for each Business Day until the Bond Payment Due Date, the Bond Bank shall receive from the Trustee a report of Governmental Unit Payments made and outstanding.

The report shall include both Governmental Unit Payments made directly by the Governmental Unit and through the State Intercept;

- b. Prior to or on the fifth (5th) Business day before the Bond Payment Due Date, the Bond Bank shall notify the investment advisor and the Custodian of the potential need for cash in an amount equal to the Governmental Unit Deficiencies to be wired from the Fund to one or more Bond Fund accounts held by the Trustee;
- c. One (1) Business Day before the Bond Payment Due Date, the Bond Bank shall remit to the Trustee by wire transfer funds necessary to satisfy any Governmental Unit Deficiencies; and,
- d. On or before the second (2nd) Business Day following any Governmental Unit Deficiency being cured, either through the receipt of State Intercept payments or from direct payments remitted by the Governmental Unit, the Trustee shall notify the Bond Bank that the Deficiency has been satisfied and will remit the excess funds to the General Operating Reserve Fund.