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HB 2536 (Printer's No. 4341) Analysis

Date: September 14, 2020

Amending Title 53 (Municipalities Generally) of the Pennsylvania Consolidated Statutes to authorize emergency tax anticipation notes

Prime Sponsor: Representative James

A. Synopsis of Bill

This bill amends the Local Government Unit Debt Act, or LGUDA, to authorize alternative tax anticipation notes that mature at the end of the next fiscal year.

B. Summary and Analysis of Bill

This legislation creates a new section within Subchapter B Tax Anticipation Notes and Funding Debt of Chapter 81 of Title 53 to authorize special short term debt to help local government units, which include Counties, Cities, Boroughs, Townships and School Districts, manage cash flow during the Covid-19 emergency. Under the provisions of this proposal, a local government unit is authorized to obtain tax anticipation notes with a date of maturity at the conclusion of the local government's fiscal year that ends in 2022.

Upon enactment, the law will take effect immediately.

C. Relevant Current Law

Tax anticipation notes, or TANs, are borrowing instruments that allow local government units to borrow money for short term or operational purposes. TANs exist because local governments make budget expenditures throughout the year, but receive revenues from taxes levied, fees imposed and other sources, on a periodic basis throughout the entity's budget year. Because TANs are based on the actual forecasted revenues anticipated by the local government unit's budget, existing tax anticipation note authorization requires the local government unit to repay the loan by the end of the entity's current fiscal year after those revenues have been received. Otherwise, the remaining balance becomes unfunded debt under the remaining provisions of LGUDA.

D. Background of Bill

Following the March 2020 disaster declaration by Governor Wolf in response to the Covid-19 pandemic, rapidly shifting economic circumstances have posed an immediate challenge to municipal fiscal operations throughout the Commonwealth. For many local governments, shifted tax deadlines, resident job losses and emergency related expenses have the potential to create unprecedented need for financial liquidity tools. It is likely that many entities will not have collected all of the taxes and fees that have been levied during the current fiscal year by the time traditional tax anticipation notes would mature later this fall. The provisions of this bill would allow these entities to have more time to repay TANs with a longer maturity term and more flexibility to determine how these economic conditions and unanticipated expenses will affect the local government's ability to maintain its operations over the coming months.

This bill was drafted in consultation with each of the municipal associations, municipal management and financial professionals, Act 47 recovery coordinators, academics and municipal bond attorneys.

E. Effect of Bill

This bill would not modify the terms of any current TANs that currently exist as financial obligations between local government units and lending institutions, but would only authorize the issuance of alternative TANs under special, longer terms as a response to the Covid-19 emergency.

F. Issues, Policy Questions and Stakeholder Feedback

- The Pennsylvania State Association of Township Supervisors expressed that the concept contained in the bill would be helpful to their members.
- The Pennsylvania Municipal League supports the proposal.
- The Pennsylvania State Association of Boroughs has no objections to the proposal.
- The County Commissioners Association of Pennsylvania do not have a position on the bill.

G. Bill History

This bill has no previous history.