S&P Global
Ratings

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Summary:

Vermont Bond Bank; State Revolving Funds/Pools

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Credit Profile		
US$17.775 mil local investment bnds ser 2021-3 due 12/01/2051		
Long Term Rating	AA+/Stable	New
US$7.06 mil rfdg bnds ser 2021-4 due 12/01/2033		
Long Term Rating	AA+/Stable	New
Vermont Mun Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed
Vermont Mun Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating to Vermont Bond Bank's (VBB) $17.8 million series 2021-3 local investment bonds and $7.1 million series 2021-4 refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the bank's previously issued bonds. The outlook is stable.

The bond bank will use series 2021-3 bond proceeds to fund new loans, make a deposit to the reserve fund, and pay the costs of issuance; the series 2021-4 bond proceeds will be used to refund bonds outstanding for savings. After this issuance, the bank will have approximately $600 million of loans and $55.8 million in a pledged debt service reserve fund (DSRF) supporting repayment of $624 million of bonds. Approximately 200 municipalities and school districts have loans outstanding with the bank.

Credit overview

The ratings reflect our view of the following characteristics:

- A very strong enterprise risk profile, given that the pool has explicit statutory support from the state government to support debt service, if needed, and was also established by statute. VBB was established in 1970 as outlined in Title 24, Chapter 119 of the Vermont Statutes Annotated. Explicit statutory language exists for state support of debt service, if needed, through both a state aid intercept mechanism and a moral obligation of the state to replenish the debt service reserve (DSR) to the required level if it should ever fall below this point. All funds remain in the bank and are not transferred to other agencies or departments; and
- An extremely strong financial risk profile, reflecting the program's loss coverage score (LCS), operating performance, and financial policies.

Securing debt service on the bonds are loan repayments from municipalities, pursuant to various loan agreements, as well as a pledged revenue bond reserve fund. Also, by statute, bonds are considered general obligations of the bank. Annual debt service coverage (DSC) from pledged loan repayments, interest earnings on investments, and planned annual draws of reserve fund investments have been shown by management to be slightly more than 1x in most years, with surplus revenues then able to both accumulate over time and support debt service when DSC is slightly less than 1x (due to timing mismatches between some investment maturities and aggregate debt service due). The DSRF is funded with bond proceeds, and the cash flows are structured to have most of the reserves be used to eventually repay bond debt service, but always exceed the required level (the lowest of maximum annual debt service on the bonds, 125% average annual debt service, or 10% of par). If any loan repayments default and are not recovered at 100%, the bank would have to use accumulated cash balances to make bond payments.

The stable outlook reflects our expectation that strong program features, the borrowers' diverse credit profiles, and sound reserves associated with the program will continue.

Although the VBB program benefits from additional overcollateralization and diversity, we believe that ratings on these programs could be pressured if the exceptionally low rate of loan delinquencies at or near 0% that we have typically observed balloons to significant levels for an extended period. However, the amount of excess cash flows well beyond what is needed to pay debt service on the bonds outstanding acts as a cushion to any downside pressure at this time.

Stable Outlook

Downside scenario

Within the two-year outlook horizon, we could lower the rating or revise the outlook to negative if pledged reserve funds and cash held both inside and outside the resolution do not remain at levels we consider consistent with the LCS.

Upside scenario

Given that we do not expect the enterprise risk profile to change, we do not expect to raise the rating during our outlook horizon.

Credit Opinion

In addition to the loan repayments and DSRF, there is $3.7 million in pledged cash available, and $26.2 million of general operating funds that it could use at any time for debt service payments, but that are outside of the pledged revenue stream. Management has a policy of maintaining unrestricted funds that represent at least 3% of the loan portfolio. The existence of revenues specifically not needed to pay bond bank debt service is of particular importance to the extremely strong financial risk profile, and if the availability of these revenues was significantly reduced or curtailed, we could lower the rating.

We have allowed for 95% recovery of defaulted revenues due to the presence of a moral obligation to replenish the DSRF to the required level (see above) outlined in Title 24, Section 4675 of the state's statutes. The bank's chairperson will, no later than Feb. 1, make and deliver to the governor (or governor-elect) a certificate stating the sum required to restore the fund to the required level. This delivery is performed annually, and then, by March 1, the governor (or governor-elect) is required to submit a request for appropriations in the same amount. However, the legislature is not required to take action on the submission, and this provision has never been tested.

The credit quality of the underlying borrowers is also supported, in our view, by a state aid intercept mechanism. Title 24, Section 4555 of the Vermont Statutes established this state aid intercept provision. If a governmental unit fails to make a scheduled principal or interest payment on its municipal bonds held by the bank, the state treasurer will pay VBB an amount sufficient to cure the overdue payment from any state and federal funds held by the treasurer and due to the governmental unit. If there is still an overdue amount, then the treasurer must continue to withhold money otherwise payable to the governmental unit until the deficiency has been repaid or arrangements to make the bank whole are made.

Averaging all of the financial policies and practices, we view the corpus of these as generally strong. Management has implemented annual surveillance for all outstanding borrowers and has surveillance in place for more than 98% of loans outstanding by volume. The bank's policy is not to issue bonds for deficit financing, but only for capital assets or equipment. Program staff sends payment invoices to all borrowers 75 days before loan repayment due dates to ensure payment compliance, but does not require all borrowers to submit annual disclosure documents. Loan payments are due 30 days before debt service. Management can fund loans from bond proceeds as it receives applications. Given the nature of the bank's operations, multiyear loan demand planning is a challenge, but management is working to expand this forecasting by strengthening relationships with current and potential borrowers throughout the state. Investments are reported on at least quarterly and staff monitor them as needed.

Management said there have been no loan defaults or delinquent payments since the program began in 1970, and that it will continue to issue debt on an ongoing basis to finance loans, consistent with past practices.