S&P Global Ratings

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Summary:

Vermont Bond Bank; State Revolving Funds/Pools

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Credit Profile		
US$47.565 mil rev bnds ser 2024-2 due 12/01/2054		
Long Term Rating	AA+/Stable	New
US$32.185 mil rev bnds ser 2024-3 due 12/01/2044		
Long Term Rating	AA+/Stable	New
Vermont Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Vermont Bond Bank's (VBB) $47.565 million series 2024-2 bonds and $32.185 million series 2024-3 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.

We borrowed elements of our criteria "Commercial Paper, VRDO, And Self-Liquidity," published July 3, 2007, specifically the adoption of asset discount factors through the Funds Liquidity model, to stress the market value of certain reserve funds available to meet debt service if necessary.

Security

VBB will use the series 2024-2 bond proceeds to fund new loans to 13 projects throughout the state. It will use the series 2024-3 bond proceeds to refund all or a portion of the series 2014-3 and series 2014-4 bonds. Securing debt service on the bonds (issued under the General Resolution) are loan repayments from municipalities, as well as a pledged revenue bond reserve fund, which is structured to have such funds eventually used for debt service. Also, by statute, bonds are considered general obligations of the bank. Finally, there is 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 become insufficient. After this issuance, the bank will have approximately $658.716 million of bonds outstanding under the General Resolution.

Credit overview

VBB benefits from overcollateralization in addition to the strong diversity of its pool, which is composed of almost 200 unique borrowers throughout the entire state. Each borrower represents no more than 7% of the total pool. After this issuance, the five leading borrowers account for approximately 29% of the loan amount outstanding, and the 10 leading borrowers account for about 43%.

The rating reflects 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;

- Very strong loss coverage score (LCS), due to annual coverage generated from reserves and loan payments;
- Extremely strong operating performance with no delinquencies or delayed payments; and
- Strong policies including a thorough process of loan origination and monitoring, as well as formal credit and underwriting guidelines.

In July 2024, certain regions in Vermont experienced substantial flooding due to heavy rainstorms from Tropical Storm Beryl that resulted in a state of emergency. To date, management has reported that only two borrowers (less than 5% of the total pool) were affected. We believe that, similar to prior weather events, that the pool and underlying borrowers will be able to address these financial pressures without an impact to loan repayment. Furthermore, while never used previously, VBB has the ability to draw on the DSR for unexpected short-term liquidity constraints from these borrowers.

Outlook

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

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 what we consider consistent with the LCS. In addition, although we do not expect it, we could lower the rating or revise the outlook to negative if the program starts to experience material loan delinquencies or defaults.

Upside scenario

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

Credit Opinion

Enterprise risk profile: Very strong

We view the program's enterprise risk profile as very strong, given a combination of the low industry risk profile for municipal pools and the program's market position, which we consider strong due to the support from the state government, along with the statutes establishing the program and the structure of program management. On June 19, 2023, the state statute that created the program was amended to include the ability to fund financing arrangements for projects that are not limited to municipalities. The series 2024-2 bonds are secured by general obligation bonds or utility revenue bonds. The pool does not currently contain any loans secured by financing arrangements at this time.

Financial Risk Profile

Financial risk profile: Extremely strong

We view the program's financial risk profile as extremely strong, based on a combination of the LCS, historical operating performance, and our view of management policies.

In addition to the loan repayments and the DSR fund (DSRF), there is $23.85 million of general operating reserve funds that the bond bank could use at any time for debt service payments, but that are outside of the pledged revenue stream. 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. The credit quality of the underlying borrowers is also supported, in our view, by a state aid intercept mechanism, whereby if a borrower fails to make payment, the state will cure the debt to VBB from any state or federal funds held by the state treasurer. If there is still an overdue amount, then the treasurer must continue to withhold money otherwise payable to the borrower until the deficiency has been repaid or arrangements are made to make the bank whole.

Averaging all of the financial policies and practices, we view most of these as generally strong, including loan monitoring and origination. We believe cash flow timing is well managed, with loan payment due 75 days before bond payments. However, multiyear loan demand planning has historically been difficult.

Management reports that there have been no loan defaults or delinquent payments since the program began in 1970. After this issuance, the bank will have approximately $639.2 million of loans and $51.1 million in a pledged DSRF supporting repayment of about $658.7 million of bonds.

Vermont Bond Bank

VBB was created by an act under the Vermont General Assembly in 1970 with a five-director membership including the state treasurer and four other directors appointed by the governor for two- year terms. The bank's primary purpose is to issue bonds to provide funding of loans to counties, municipalities, and other public bodies of Vermont, including public school districts that are secured by the general obligations of those municipalities or public utility revenues. VBB receives ongoing support from the state through a state intercept as well as a moral obligation.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of July 17, 2024)

Ratings Detail (As Of July 17, 2024) (cont.)		
Vermont Mun Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed