S&P Global
Ratings

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Summary:

Vermont Bond Bank; State Revolving Funds/Pools

Primary Credit Analyst:
Adam Torres, New York + 1 (212) 438 1141; adam.torres@spglobal.com

Secondary Contact:
Autumn R Mascio, New York + 1 (212) 438 2821; autumn.mascio@spglobal.com

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Summary:

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Credit Profile		
US$13.755 mil 2023 series 1 bnds due 12/01/2052		
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) $13.8 million series 2023-1 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, to stress the market value of certain reserve funds available to meet debt service if necessary.

Security

VBB will use bond proceeds to fund new loans to four projects throughout the state. Securing debt service on the bonds 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 fund (DSRF) to the required level if it should ever become insufficient.

Credit overview

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; and
- An extremely strong financial risk profile, reflecting the program's loss coverage score (LCS), operating performance, and financial policies.

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 at levels we consider consistent with the LCS.

Although we believe it to be unlikely given that the VBB program benefits from overcollateralization and diversity, we could lower the rating if the exceptionally low rate of loan delinquencies at or near 0% that we have typically observed increases significantly for an extended period. The amount of excess cash flows well beyond what is needed to pay debt service on the bonds outstanding provides a cushion for any downside pressure at this time.

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

In addition to the loan repayments and the DSRF, there is $23.5 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 the corpus of these as generally strong, including loan monitoring and origination. We believe cash flow timing is also well managed, with loan payments due 30 days before bond payments. However, we note that multiyear loan demand planning has historically been challenging.

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 $546 million of loans and $55 million in a pledged DSRF supporting repayment of about $630 million of bonds. Almost 200 municipalities and school districts have loans outstanding with the bank.

Ratings Detail (As Of February 16, 2023)		
Vermont Mun Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed