S&P Global
Ratings

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Summary:

Vermont Bond Bank; State Revolving Funds/Pools

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Credit Profile		
US$30.92 mil local investment bnds ser 2032 2 due 12/01/2053		
Long Term Rating	AA+/Stable	New
US$20.585 mil rfdg bnds ser 2023 3 due 12/01/2033		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Vermont Bond Bank's (VBB) $30.92 million series 2023-2 bonds and $20.585 million series 2023-3 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 2023-2 bond proceeds to fund new loans to 11 projects throughout the state. The series 2023-3 bond proceeds will be used to refund the existing series 2014-1 and 2014-2 bonds. 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 (DSR) to the required level if it should ever become insufficient.

Credit overview

Beginning on July 9, 2023, Vermont experienced substantial flooding due to heavy rainstorms that resulted in a declared state of emergency in its 14 counties. The declaration allows the Department of Homeland Security and Federal Emergency Management Agency to coordinate all disaster relief efforts. While the impacts of the flooding are widespread and damage estimates are unknown at this point, VBB's management team reports that several borrowers in the pool are affected by the extreme weather event. However, we believe that VBB has sufficient reserves and borrowers have liquidity available to pay current and future loan payments to ensure debt service payments on the bonds. We will continue monitoring loan payments from borrowers to the pool and if delinquent payments occur, we will adjust our analysis accordingly. (For further information, see "Vermont Flooding And Storm Damage Unlikely To Have Negative Credit Implications," published July 17, 2023.)

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, the rating could be pressured 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 acts as a cushion to 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

Enterprise Risk Profile

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 expands the security of the loans that VBB can issue beyond general obligation bonds or revenue bonds from regulated utilities while benefiting from the state intercept mechanism. The series 2023-2 bonds are secured by general obligation bonds. The pool does not currently contain any loans secured by financing arrangements at this time.

Financial Risk Profile

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 debt service reserve fund (DSRF), there is $22.99 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 well managed also, with loan payment due 75 days before bond payments. However, multiyear loan demand planning has historically been challenging. In addition, we believe that management has been proactive in its strategic initiatives related to extreme weather events based on its implementation of multiple policies in response to the flood risk of Vermont municipalities.

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 $576 million of loans and $57.5 million in a pledged DSRF supporting repayment of about $602 million of bonds. Approximately 195 municipalities and school districts have loans outstanding with the bank.

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 19, 2023)		
Vermont Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed
Vermont Mun Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed