S&P Global Ratings

RatingsDirect®

Summary:

Vermont Bond Bank; State Revolving Funds/Pools

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

Secondary Contact:
John Kennedy, CFA, Chicago +1-312-233-7088; john.kennedy@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Enterprise Risk Profile

Financial Risk Profile

Related Research

Summary:

Vermont Bond Bank; State Revolving Funds/Pools

Credit Profile		
US$65.76 mil 2024 ser I bnds (local investment bnds) due 12/01/2054		
Long Term Rating	AA+/Stable	New
Vermont Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed
Vermont Mun Bnd Bank		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to Vermont Bond Bank's (VBB) $65.75 million series 2024-1 bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the bank's previously issued bonds.
- 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.
- The outlook is stable.

Security

VBB will use the series 2024-1 bond proceeds to fund new loans to 10 projects throughout the state. 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 $612.2 million of bonds outstanding under the General Resolution.

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, and
- A state aid intercept feature in the majority of loans to help minimize actual losses.

In July of 2023, Vermont experienced substantial flooding due to heavy rainstorms that resulted in a declared state of

emergency in its 14 counties. The declaration made local recovery projects eligible for Federal Emergency Management Agency (FEMA) reimbursement. To facilitate recovery efforts, the Municipal Climate Recovery Fund (MCRF), a general obligation (GO) loan of VBB, was created to provide short-term loans to affected communities with FEMA proceeds as the expected repayment source. The State of Vermont provided VBB with a $15 million GO loan to fund the MCRF. While currently unexpected, any short-term loan defaults in the MCRF loan pool could require VBB to tap its general operating reserve fund (GORF) to repay the state GO loan. We therefore incorporate the potential competing use of GORF funds into our analysis of General Resolution loss coverage.

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. In addition, while we believe it to be unlikely, we could lower the rating or revise the outlook to negative if the program starts to experience 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

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 general obligations or regulated utility revenues; however, this amendment does not alter the type of borrower that VBB is permitted to lend to as per the General Resolution. The series 2024-1 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

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 $23.78 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 on extreme weather events, based on its implementation of multiple policies in response to the flooding caused by Hurricane Irene.

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 $590.2 million of loans and $45.2 million in a pledged DSRF supporting repayment of about $612.2 million of bonds. Approximately 193 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.