Research Update:

Vermont Bond Bank Series 2025-2, 2025-3 Refunding Bonds Rated 'AA+'; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA+' rating to Vermont Bond Bank's (VBB's) $74.218 million series 2025-2 bonds and $43.885 million series 2025-3 refunding bonds.
- At the same time, we affirmed our '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," 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.

Rationale

Security

VBB will use the series 2025-2 bond proceeds to fund new loans to 17 projects throughout the state. The bank will use the series 2025-3 bond proceeds to refund all or a portion of the series 2015-1, 2015-2, 2015-5, 2018-1, and 2018-2 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 that 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 should it become insufficient. After these issuances, the bank will have approximately $760.95 million of bonds outstanding under the General Resolution.

Credit highlights

VBB benefits from overcollateralization in addition to the strong diversity of its pool, which is composed of almost 200 unique borrowers throughout the state. Each borrower represents no more than 6.7% of the total loan balance of the pool. After this issuance, the five leading borrowers account for 26% of the loan amount outstanding.

The rating reflects our view of the following characteristics:

- A very strong enterprise risk profile, given that the program was created under state statute and has explicit statutory support and funding from the state government to support debt service if needed;
- Overcollateralization in the form of reserves and excess loan repayments capable of withstanding S&P Global Ratings' loss coverage scenario, based on the credit quality of the asset pool and consolidated cash flows, run at our 'AA' category stress level;
- Extremely strong operating performance with no defaults or delinquent payments; and
- Strong policies, including a thorough process of loan origination and monitoring, as well as formal credit and underwriting guidelines.

Outlook

The stable outlook reflects our expectation that strong program features, the borrowers' diverse credit profiles, and sound reserves associated with the program will remain commensurate with the rating and that other program features, especially the operating and financial performance of the loan portfolio, will not deviate from historical trends and practices.

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 are inconsistent with the loss coverage score (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 anticipate 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 because of 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 all financing arrangements for projects, including those subject to appropriations; however, to date, the pool consists only of general obligation and revenue bonds from governmental units within the state. The series 2025-2 bonds are secured by general obligation bonds.

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 $25.1 million of assets in the General Operating Reserve Fund (GORF) that the bond bank could use any time for debt service payments, but that is outside of the pledged revenue stream. Our analysis of the funds available in the GORF to cover credit default losses have been discounted based on our view of their risk and liquidity, therefore, changes to asset allocations toward certain asset classes or duration could affect our available reserves calculations in our loss coverage analysis. The GORF is actively managed by Loomis Sayles, an investment advisor. 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.

We view the financial policies and practices as ranging from strong to adequate. This assessment is based on the following factors:

- Each new transaction is reviewed by program staff based on standard guidelines, and borrowers are required to submit three years of audits and other disclosure information. However, management maintains discretion regarding loan applications to make exceptions when mitigating factors exist.
- Staff monitors every borrower annually.
- Program staff sends payment invoices to all borrowers about 45 days before loan repayment due dates to ensure payment compliance. Loan payments are generally made 30 days before debt service.
- Management does not perform comprehensive long-term planning, given the nature of the bank's operations. Management prioritizes future loan demand, typically up to the next semiannual bond sale.
- The resolution allows for funds to be invested in several instruments that comply with state statutes.

Management reports that there have been no loan defaults or delinquent payments since the program began in 1970.

Credit Snapshot

- Program descriptions: VBB was created by an act under the Vermont General Assembly in 1970 with a five-director membership consisting of 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.

- Flow of funds: All program revenues and borrower payments will be deposited into the revenue fund. When debt service payments are due, the necessary amount will be transferred from the revenue fund to the trustee to make debt service payments. If the amounts in the revenue fund are not sufficient to make debt service payments due to a borrower that was unable to make a timely loan payment, the state can provide intercept aid to the borrower by the state treasurer to satisfy the loan payment.
- Summary statistics: After this issuance, the bank will have approximately $731.5 million of loans and $57.3 million in a pledged DSRF supporting repayment of about $760.95 million of bonds. The largest obligor is South Burlington, accounting for 6.6% of all loans outstanding. The 10 leading borrowers account for about 42% of total loans outstanding. The bank's loan portfolio is well diversified across the entire state with almost 200 unique borrowers that have strong credit quality due to the general obligation and utility security pledges, as well as the state intercept, as Vermont is rated 'AA+'.

Ratings List	
New Issue Ratings	
US$43,885,000 Vermont Bond Bank, Vermont, Bond Bank, Series 2025-3, dated: Date of delivery, due: December 01, 2043	
Long Term Rating	AA+/Stable
US$74,000,000 Vermont Bond Bank, Vermont, Bond Bank, Series 2025-2, dated: Date of delivery, due: December 01, 2055	
Long Term Rating	AA+/Stable
Ratings Affirmed	
Vermont Mun Bnd Bank, VT General Resolution	AA+/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.