

**CREDIT OPINION**

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**Contacts**

Nicholas Lehman +1.781.672.1124  
VP-Senior Analyst  
nicholas.lehman@moody's.com

Thomas Jacobs +1.212.553.0131  
Associate Managing Director  
thomas.jacobs@moody's.com

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Americas 1-212-553-1653  
Asia Pacific 852-3551-3077  
Japan 81-3-5408-4100  
EMEA 44-20-7772-5454

# Vermont Bond Bank

## Update to credit analysis

### Summary

The [Vermont Bond Bank](#) (VBB, Aa2 stable) demonstrates strong pool program characteristics including an overall stable credit quality of pool participants, many of which (approximately 86% of participants) are supported by the [Vermont State Aid Intercept Program](#) (Aa2 stable). The bond bank's pool of 196 participants is large and very diverse with a sound governance structure and legal provisions. The program also benefits from experienced and proactive management and oversight. The bond bank's annual debt service is structured to yield just over one times coverage supported by a large debt service reserve fund that results in an adequate default tolerance provided by loan repayments and other available funds. Legal provisions include additional support by the [State of Vermont's](#) (Aa1 stable issuer rating) moral obligation pledge to restore the debt service reserve fund.

### Credit strengths

- » Large size and diversity of pool participants
- » Experienced management team
- » State aid intercept provision enhances credit quality of large portion of pool participants

### Credit challenges

- » Limited excess annual cash flow due to program design resulting in low default tolerance
- » Maintenance of credit quality and diversity of pool given ability to add new participants

### Rating outlook

The stable outlook reflects strong structural elements of the pool program and the healthy credit quality and significant diversity of the loan pool that will be maintained given strong program management and oversight practices.

### Factors that could lead to an upgrade

- » Material increase in annual debt service coverage and the pool's default tolerance to at least 20%
- » Improvement in the credit quality of the pool participants
- » Upgrade of the State of Vermont's issuer rating

### Factors that could lead to a downgrade

- » Downgrade of the State of Vermont's issuer rating
- » Deterioration in the credit quality of the pool participants

» Significant change in pool participant composition

## Key indicators

Exhibit 1

Vermont Bond Bank	
Size and Diversity	
Size of Portfolio	196
% of Borrowers with less than 1% of the pool	87
% of loans to the top 5 borrowers	28.6
Amount Outstanding	
Total Bonds Outstanding	\$619M
Total Loans Outstanding	\$658M
List of Participants	Percent of Pool
City of South Burlington	7.38%
Fairfax Town School District	5.53%
City of St. Albany	5.51%
Champlain Valley School District	5.23%
Colchester Town School District	4.96%

Source: Vermont Bond Bank

## Profile

The Vermont Bond Bank was created in 1969 and is authorized to issue bonds in order to provide loans to local governments. Since its inception, the bond bank has provided over \$2.5 billion in loans for local infrastructure throughout Vermont (Aa1 stable). Approximately 98% of the loans are secured by a general obligation of the municipality, school district, or special district.

## Detailed credit considerations

### Loan portfolio: strong portfolio given large pool size and diversity of participants

Following the issuance of 2025 Series 1 bonds, the program's pool will consist of 196 separate local government borrowers with 490 loans outstanding. Additionally, 87.7% of the participants have less than 1% of the total loans outstanding. The loans outstanding of these participants represent 35% of the total pool amount. The five largest borrowers account for 28.6% of outstanding loans. The largest participant is the City of South Burlington representing 7.4% of the total loan pool. Participants are geographically diverse with loans allocated to participants in all 14 counties. The large size and diversity of the pool is a credit strength. Program cash flow is structured to provide a minimum 1.0 times debt service coverage on the bonds.

### Credit quality and default tolerance:

The pool's credit quality is sound but the default tolerance is low. The pool's underlying credit quality is generally in the A-range and further enhanced by the application of the Aa2 enhanced rating that is assigned to any participant with sufficient state aid coverage over maximum annual debt service based on the state aid intercept program. Only 3.9% of loans outstanding carry a public rating, including the [City of Burlington](#) (Aa3 stable) and [Town of Stowe](#) (Aa3). The pool is 98% secured by general obligation pledges of the participants with the remainder repaid by a revenue pledge that requires a 1.25 times revenue pledge.

The pool has a low default tolerance of 12% that reflects the bond bank's program which is designed for achieving 1.0 times coverage for tax backed participant loans. As a result, the bond bank's debt service coverage is generally sufficient and generates minimal excess cash flows. Debt service reserve funds and the general operating reserve, despite being well funded, provide only modest improvement to the default tolerance.

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**Liquidity**

The bond bank has healthy liquidity with \$24.4 million held in the general operating fund reserve as of December 31, 2024. The bond bank maintains a policy to keep an amount above 3% of total loans outstanding in the reserve fund which would equal around \$19.7 million. Almost all of the reserves including the debt service reserve fund are invested in State and Local Government Series securities or US Treasuries.

**Legal framework, covenants and debt structure:**

The bonds are payable primarily from loan repayments from borrowers that provide for only 1x coverage; this is mitigated by additional revenue from debt service reserve fund balances, interest earnings, and operating reserves if needed. Borrowers' loan payments are due on November 1 and May 1, which are 30 days prior to debt service payment dates on the bond bank's bonds.

**Legal security**

The bonds are a general obligation of the Vermont Bond Bank, and the full faith and credit pledge of the bank is pledged for the payment of debt service on their municipal bonds. Additionally, the State provides a moral obligation to replenish the debt service reserve fund, subject to appropriation, if there is a draw on the reserve that reduces the amount below the required debt service reserve.

**Debt structure**

The debt of the Bank consists entirely of fixed rate obligations. The debt policy limits the aggregate debt amortization schedule to provide for level or declining debt service payments.

**Debt-related derivatives**

The bond bank is not party to swap agreements or other derivative products.

**ESG considerations****Environmental**

Among US states, Vermont's environmental risks are low. With no coastal exposure, Vermont local governments are primarily exposed to extreme rainfall risk. Increased rainfall could result in more frequent local or regional flooding, as is evident by the significant regional flooding that occurred in 2023 and 2024. The state and most local governments generally have the resources and capacity to address the flooding events, especially with federal assistance.

**Social**

Social considerations are not a material risk to the bond bank. Although our credit opinion of the state references that Vermont has one of the slowest growing populations in the US and, before a shift in trend in 2020 and 2021, the most rapid decline in prime working age population (residents aged 25-54). Despite recent growth in working age population, since 2000, the state's working age population fell nearly 14% and is down about 7% since 2010. Housing affordability is also a growing challenge across the state due to limited supply.

**Governance**

The Board of Directors of VBB currently has five members including, ex officio, the state treasurer. Members of the board are appointed by the governor for two year staggered terms. Board members have a broad range of experience with a strong background in finance and not for profit management and governance. The bond bank has a small staff. The board, under the direction of the executive director, adheres to formal fiscal and lending policies. Substantive to the bank's rating are loan policies and procedures requiring new loan participants to submit annual financial reports and annual monitoring of all pool participants.

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