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Vermont Bond Bank

Update following upgrade of Legacy Bonds and initial rating of Sr. & Sub. liens

Summary

The Vermont Bond Bank (Aa1/Aa2/Aa2 stable) will likely maintain a strong credit profile. The bond bank has amended its bond resolution to create three liens. The Legacy Bonds (Super senior lien that is closed) reflects the reserve fund model that together with loan repayments and other pledged revenues from the debt service reserve fund (DSRF) provide for at least 1x coverage. The new Community Revenue Bonds (senior lien) includes a coverage ratio requirement equal to the greater of (i) 1.0x and (ii) the percentage specified in the Series Resolution authorizing the issuance of senior lien bonds. The 2026 Series 1 Resolution specifies the requirement to be 100%. The bond bank expects to increase the requirement in future series resolutions following amortization of Legacy Bonds. The Enhanced Community Revenue Bonds (subordinate lien) requires only 1.0x coverage and a DSRF, similar to the Legacy Bonds structure. The DSRF for both the Legacy Bonds and the Enhanced Community Revenue Bonds includes the Moral Obligation pledge of the State of Vermont to replenish any draws.

The upgrade to Aa1 on the Legacy Bonds reflects the new lien structure and cashflows under the amended bond resolution including closure and the seniority of the Legacy Bonds relative to the new liens resulting in higher debt service coverage and default tolerance.

The Aa1 Legacy Bonds (Super senior lien) rating reflects the very large and diverse pool of 195 program participants as of the current issuance. The credit profile includes the enhanced credit quality of the majority of participants (roughly 84%) provided by the Vermont State Aid Intercept Program (Aa2 stable). The rating also incorporates an increase in the default tolerance to 24.9% from 12% in prior years. The increase is driven by the closed lien and additional debt under the subordinate liens to fund additional loans. The program maintains a strong governance structure including sound legal provisions, and robust management and oversight.

The Aa2 rating on the Community Revenue Bonds (senior lien) and the Enhanced Community Revenue Bonds (subordinate lien) reflects their junior and subordinate status respectively, to the pledge securing the Legacy Bonds. Despite the subordinate nature, the cashflows provide sufficient default tolerance coverage and maintain the overall credit strengths of the pool program under the amended Resolution.

Credit strengths

» Large size and diversity of pool participants

» Experienced management team

» State aid intercept provision enhances credit quality of pool

Credit challenges

» Limited debt service coverage and default tolerance for Community Revenue Bonds and Enhanced Community Revenue Bonds

» Maintenance of pool credit quality and diversity 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 is likely to be maintained given strong program management and oversight practices.

Factors that could lead to an upgrade

» Upgrade of the State of Vermont's issuer rating

» Material increase in annual debt service coverage

» Improvement in the credit quality of the pool participants

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

» Material increase in pool participant concentration

Key indicators

Exhibit 1

Vermont Bond Bank	
Size and Diversity	
Size of Portfolio	195
% of Borrowers with less than 1% of the pool	88.7
% of loans to the top 5 borrowers	25.1
Amount Outstanding	
Total Bonds Outstanding	$760.2 million
Total Loans Outstanding	$739.5 million
List of Participants	Percent of Pool
City of South Burlington	6.35%
City of St. Albans	4.82%
City of Burlington	4.81%
Fairfax Town School District	4.76%
Colchester Town School District	4.38%

Source: Vermont Bond Bank

Profile

The Vermont Bond Bank was created in 1969 and under the resolution is authorized to issue bonds in order to provide loans to Vermont (Aa1 stable) local governments for local infrastructure projects.

Detailed credit considerations

Loan portfolio: strong portfolio benefiting from large pool size and diversity of participants

Following the issuance of 2026 Series 1 and 2 bonds, the program's pool will consist of 195 separate local government borrowers with 464 loans outstanding. Additionally, 88.7% of the participants have less than 1% of the total loans outstanding. The loans outstanding of these participants represent 37.8% of the total pool amount. The five largest borrowers account for 25.1% of outstanding loans. The largest participant is the City of South Burlington representing 6.3% 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.

Credit quality and default tolerance: sound credit quality with improving default tolerance under new liens

The pool's credit quality is sound with strong default tolerance for the Legacy Bonds and sufficient default tolerance for the new Community Revenue Bonds and Enhanced Community Revenue Bonds. The pool's underlying credit quality is generally in the A-range and further enhanced to the Aa-range by the application of the Aa2 enhanced rating of the state aid intercept program that is assigned to any participant with sufficient state aid coverage over maximum annual debt service.

The pool's credit quality is based on public ratings, our internal assessments and enhanced ratings based on the state aid intercept. Only 8% of the loans outstanding carry a public rating, including the City of Burlington (Aa2 stable) and Town of Stowe (Aa3). The pool is 96% secured by general obligation pledges of the participants with the remainder repaid by a revenue pledge that requires a 1.25x coverage.

With the initial issuance of the new Community Revenue Bonds and Enhanced Community Revenue Bonds the new loans under the senior and subordinate structures provides additional debt service coverage on the existing Legacy Bonds. This additional coverage increases the Legacy Bonds default coverage to 24.9%.

The default tolerance for the Community Revenue Bonds and Enhanced Community Revenues Bonds is low at 6.8% and 9.8%, respectively. The Community Revenue Bonds have the lowest default tolerance because it is not supported by the DSRF although it does benefit from the investment earnings and scheduled draws on the funds above the DSRF requirement.

It is likely that debt service coverage and default tolerance will gradually improve as more loans are executed and debt issued under the new senior and subordinate bonds. As this new structure matures the program will evolve from a reserve-fund model to a cashflow model.

Liquidity

The bond bank has healthy liquidity with $25.8 million held in the general operating fund reserve as of December 31, 2025. The bond bank maintains a policy to keep an amount above 3% of total loans outstanding in the reserve fund which would equal around $22.2 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: expected to continue to support new loans while maintaining strong credit profile

The bonds are payable primarily from loan repayments from participants that provide for 1x coverage overall. The coverage requirement for the Community Revenue Bonds lien is equal to the greater of (i) 1.0x and (ii) the percentage specified in the Series Resolution authorizing the issuance of senior lien bonds. The 2026 Series 1 Resolution specifies the requirement to be 100%. The bond bank expects to increase the requirement in future series resolutions following amortization of Legacy Bonds. Additional pledged revenues are provided mostly from DSRF balances and investment earnings. As the new structure matures over time, the DSRF will contribute less and the additional coverage required under Community Revenue Bonds will provide a greater share of the revenue.

Participants' 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.

Debt structure

The debt of the bond 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 moderate. 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 flooding events, especially with federal assistance. The bond bank is also taking a proactive role with the state in establishing financing programs to aid local governments in resiliency efforts.

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.

Rating methodology and scorecard factors

The Pool Program Methodology includes a scorecard, which summarizes the rating factors generally most important to pool program credit profiles. Because the scorecard is a summary, an may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 2

Rating Factors		Input	Weight	Score
Credit Strength and Default Tolerance (50%)				
	Credit Quality and Default Tolerance Score	Aaa	50%	Aaa
Diversity of Portfolio (20%)				
	Number of Borrowers	195	10%	Aaa
	Percentage of Loan Principal to Borrowers that Represent Less than 1% of the	38%	5%	Aaa
	Percentage of Loan Principal to Top 5 Borrowers	25%	5%	Aaa
Debt Structure (30%)				
	Cash Flows	A	20%	A
	Counterparties	Aaa	10%	Aaa
Notching Factors				Up/Down
	Unusually Strong or Weak Management	1.00		1.0
	Concentration of Pool Participants in a Volatile Sector			0.0
	Total Notching Adjustments			1.0
	Scorecard Indicated Outcome			Aaa
	Assigned Rating			Aa1

Data is based on most recent fiscal year available. Debt may include pro forma data for new debt issued or proposed to be issued after the close of the fiscal year.

Scorecard reflects Legacy Bonds (super senior lien) credit profile only

Source: Moody's Ratings and Vermont Bond Bank

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