

# RatingsDirect®

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## Summary:

# Vermont Bond Bank; State Revolving Funds/Pools

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## Table Of Contents

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Credit Highlights

Outlook

Credit Opinion

Financial Risk Profile

Related Research

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### Credit Profile

US\$66.48 mil new money bnds 2025 ser 1 dtd 03/06/2025 due 12/01/2055

*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) \$66.480 million series 2025-1 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 2025-1 bond proceeds to fund new loans to 15 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 \$685.890 million of bonds outstanding under the General Resolution.

### Credit overview

VBB benefits from overcollateralization in addition to the strong diversity of its pool, which is composed of almost 200 unique borrowers throughout the entire state. Each borrower represents no more than 7.5% of the total loan balance of the pool. After this issuance, the five leading borrowers account for 28.6% of the loan amount outstanding.

The rating reflects our view of the following characteristics:

- A very strong enterprise risk profile, given that the pool, established by state statute, has explicit statutory support and funding from the state government and maintains sufficient geographic diversity, as loans in the pool are dispersed throughout Vermont;

## Summary: Vermont Bond Bank; State Revolving Funds/Pool

- Very strong loss coverage score (LCS), due to annual coverage generated from reserves and loan payments; capable of withstanding S&P Global Ratings' 'AA' category stress level, based on the credit quality of the asset pool and consolidated cash flows;
- 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 do not remain what we consider consistent with the 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 expect 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 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 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 2025-1 bonds are secured by general obligation bonds.

## Financial Risk Profile

### 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.

## Summary: Vermont Bond Bank; State Revolving Funds/Pools

In addition to the loan repayments and the DSR fund (DSRF), there is \$24.08 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 most of these as generally strong, including loan monitoring and origination. We believe cash flow timing is well managed, with loan payment due 75 days before bond payments. However, multiyear loan demand planning has historically been difficult.

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 including 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 of Vermont can intercept aid to the borrower by the State Treasurer to satisfy the loan payment.
- Summary statistics: After this issuance, the bank will have approximately \$658.1 million of loans and \$51.3 million in a pledged DSRF supporting repayment of about \$685.9 million of bonds. The largest obligor is South Burlington, accounting for 7.4% of all loans outstanding and the top 10 borrowers account for about 43.0%. The bank's loan portfolio is well-diversified across the entire state of Vermont with almost 200 unique borrowers that currently maintain a strong credit quality due to the general obligation and utility security pledges as well as the state intercept as Vermont is currently rated 'AA+'.

## Related Research

For more on Vermont's credit quality, see our analysis published Oct. 17, 2024, on RatingsDirect.

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](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://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](http://www.spglobal.com/ratings).

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