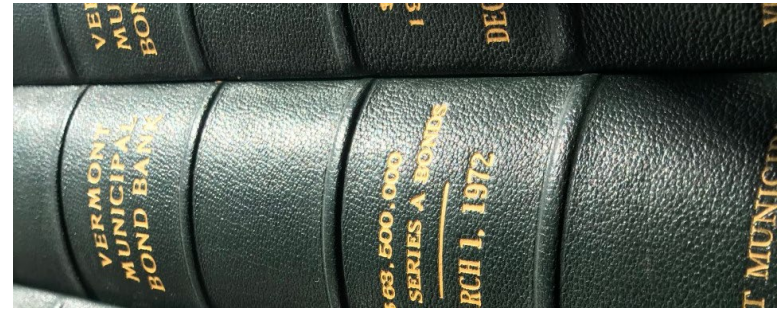




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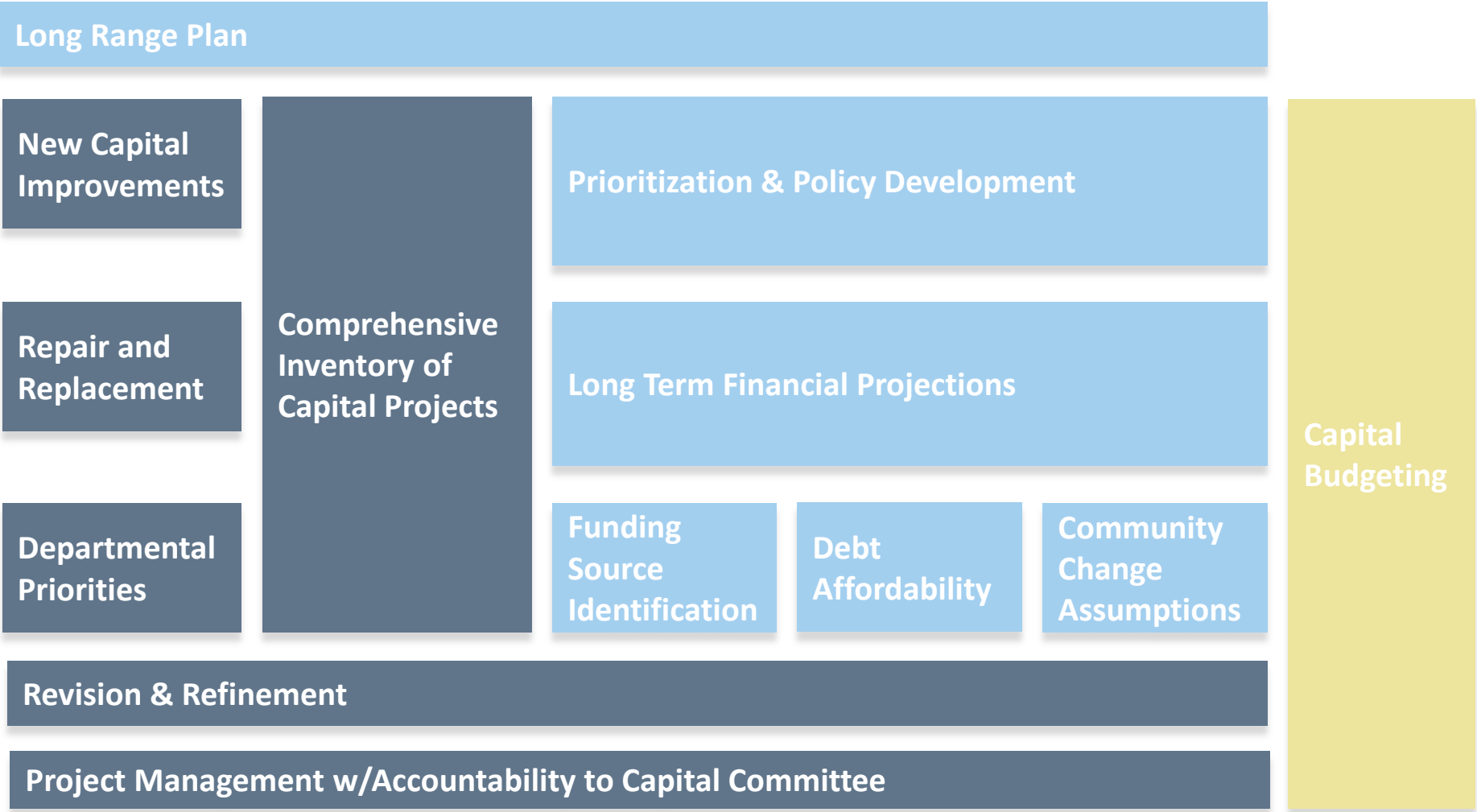


LOCAL OPTION TAX TO SUPPORT CAPITAL INVESTMENT

Presentation to Vermont Capital Planning Forum

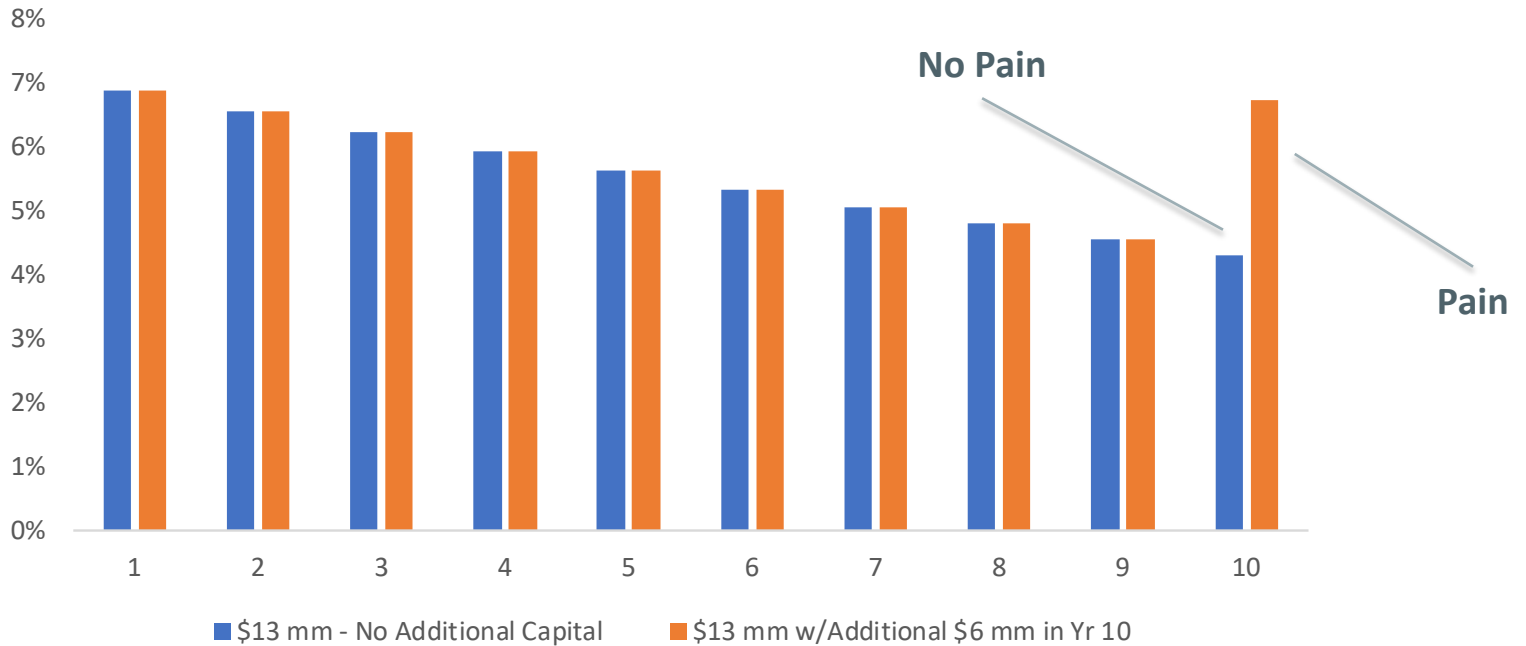
April 13, 2023

Capital Planning Process...for Discussion



Consequences of Fixing it When its Broken*

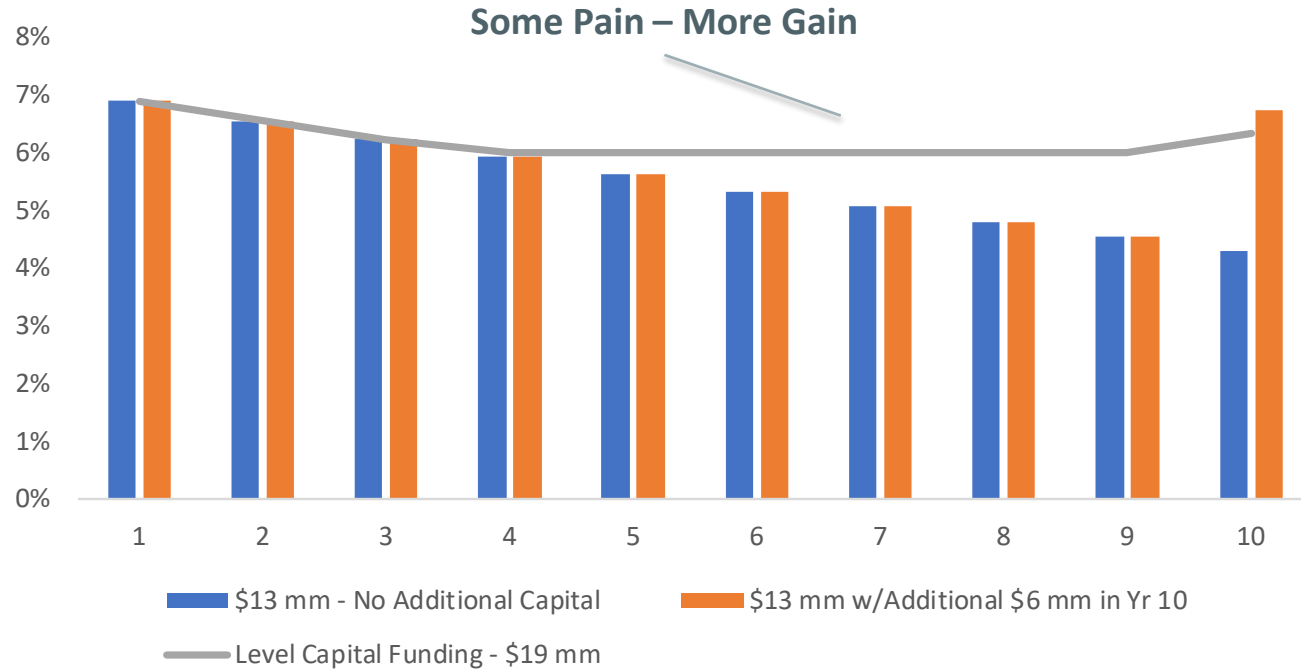
DEBT SERVICE AS % OF REVENUE



*Primary source for large scale local capital projects is debt – results in debt service as % of revenue representing proxy for capital spending allocation in annual budget

Consequences of Fixing it Earlier*

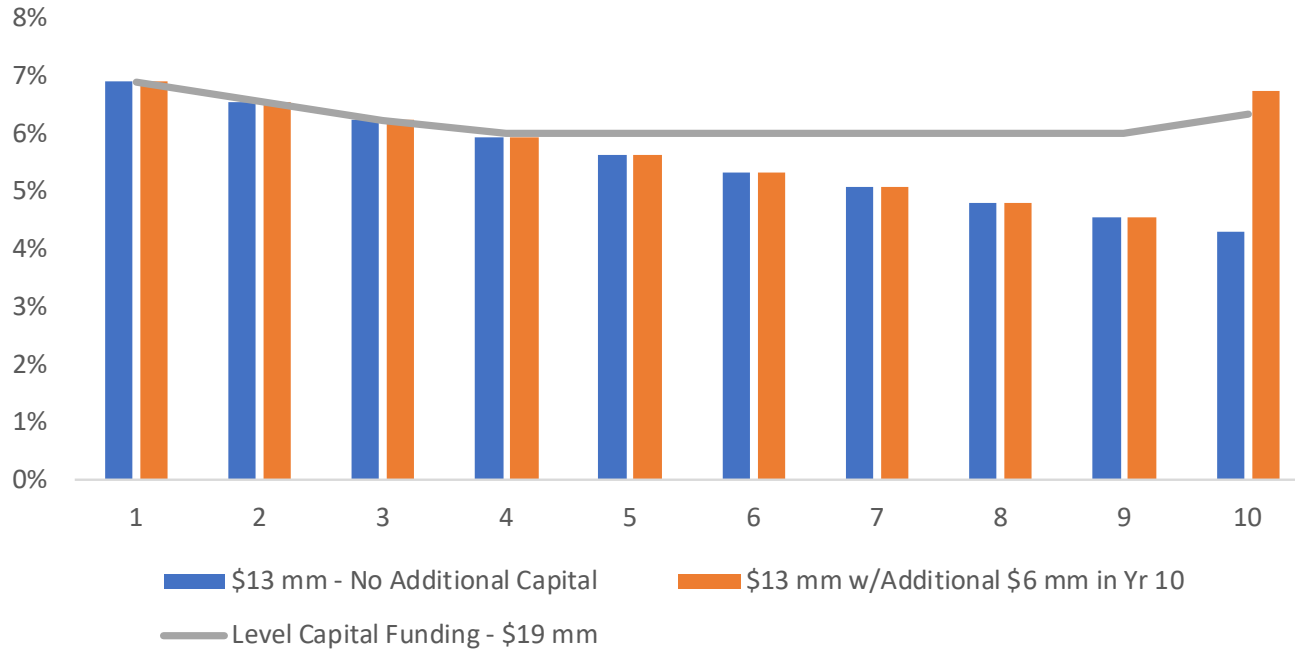
DEBT SERVICE AS % OF REVENUE



*Level funding at 6% of budget results in approximately \$1 mm in reserves available to downsize debt issuance in year 10 by corresponding amount

Comparison of Approaches

DEBT SERVICE AS % OF REVENUE



Pain

- Pain results in tough decisions for leaders and residents
- Political uncertainty for critical infrastructure
- Minimal opportunity for improvements that are forward looking
- Fosters “one and done” mentality

Some Pain

- On-going commitment to capital
- Opportunity to offer inclusive project authorization
- Level funding of commitment to capital provides opportunity for pay as you go or funding reserves in-between debt issuance

No Pain

- Likely results in deferred maintenance meaning pain later ...for someone else

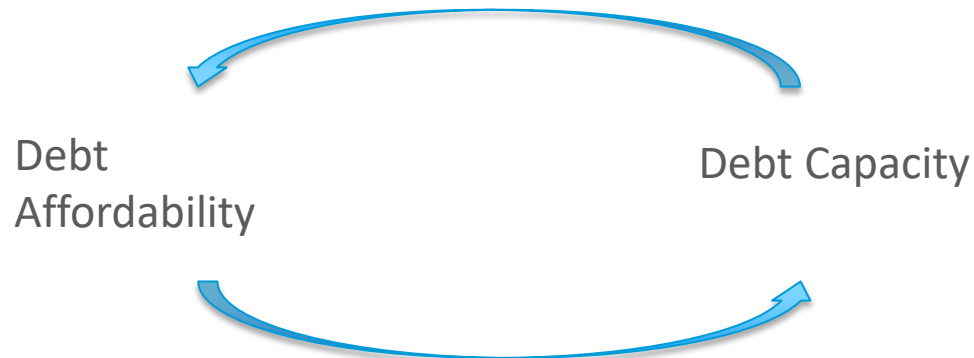
Debt Capacity

Debt capacity measures a government's ability to take on debt. It's a way that leaders and stakeholders can determine the affordability and risk of potential debt— and ensure decisions are made in the best interest of both present and future stakeholders. -- GFOA

What amount of debt service can be incurred while maintaining an affordable tax burden or other municipal fee structure?

What amount of debt is appropriate before crowding out other important areas of community spending?

What amount of debt will lenders provide and at what cost?



Debt Capacity Considerations

Tax or User Rates

**Tiebout Hypothesis
(Choose with your Feet)**

Equitable Investment / Reinvestment

Cost / Benefit of Investment

**Intergeneration Equity
(Pay as you use)**

**Comparative Advantage of
Debt vs Pay as you go**

Statutory

**Benchmarking and/or
Market Acceptance**

Local Option Tax Debt Capacity

JANUARY 26, 2021 U.S. PUBLIC FINANCE

MOODY'S
INVESTORS SERVICE

RATING METHODOLOGY US Public Finance Special Tax Methodology

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This rating methodology replaces "US Public Finance Special Tax Methodology" last revised on July 19, 2017. We have clarified certain references to other sector methodologies.

Summary

This methodology describes our general approach to assessing the creditworthiness of special tax bonds issued in the US public sector. We highlight factors that are critical to the ability of a special tax instrument to honor its debt obligations over time.

- » This methodology sets forth our approach to rating Special Tax Bonds.
- » This methodology presents a scorecard, which is a tool for the analysis and relative weighting of certain important quantitative and qualitative factors considered in our ratings analysis.
- » This methodology includes appendices describing the approach to GARVEE and adjustable assessment bonds in the methodology and scorecard.

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Intuition for stability of revenue source



EXHIBIT 2

	Aaa	Aa	A	Baa	SG
Nature of the Special Tax Pledge	Very Broad (e.g. Sales, Utility, Income, and Gas Taxes, Motor Vehicle Registration Fees; Fixed Payments from the State depending on State's Rating)	Broad (e.g. Sales, Utility, Income, and Gas Taxes, Motor Vehicle Registration Fees; Fixed Payments from the State depending on State's Rating)	Average (e.g. Sales, Utility, Income, and Gas Taxes, Motor Vehicle Registration Fees)	Narrow (e.g. Hotel, Car Rental, Meals, Lottery, Liquor, and Cigarette Taxes)	Very Narrow (e.g. Document Stamp, Hotel, Car Rental, Meals, Lottery, Liquor, and Cigarette Taxes)

Source: Moody's Investor Service

Underwriting Guidance for Local Option Tax

Factor	Metric for "A" Rating without GO Support
Economic Strength	Developed and "reasonably" diversified economic base
Scope of Taxes	Average (ex. sales tax + other)
Maximum Annual Debt Service Coverage (MADS)	1.51x to 2.50x
Trends and Volatility	Negative fluctuations within 5 to 10%

Source: Moody's Investor Services, "US Public Finance Special Tax Methodology," published July 19, 2017

$$\begin{aligned}
 & \$875,000 / 1.5 \\
 & = \\
 & \mathbf{\$583,333 \text{ MADS}}
 \end{aligned}$$

SOURCES & USES	
<i>Sources</i>	<u>Assumptions</u>
Par	\$7,000,000
Equity	0
Total	\$7,000,000
<i>Uses</i>	
Project	\$7,000,000
COI	
Total	\$7,000,000
Dated Date	3/6/2023
I-Commencement Date	5/1/2023
P-Commencement Date	11/1/2023
Term	26 Years
Amortization Period	25 Years
Final Maturity	
Avg Life	12.74 Years
<i>Statistics</i>	
Net Interest Cost	4.53%

[Note] NIC assumes no accrued interest & par bonds

	ANNUAL DEBT SERVICE SCHEDULE		
	Principal	Interest	Series D/S
	7,000,000	4,035,539	11,035,539
6/30/2022	0	0	0
6/30/2023	0	74,814	74,814
6/30/2024	280,000	310,521	590,521
6/30/2025	280,000	297,847	577,847
6/30/2026	280,000	285,172	565,172
6/30/2027	280,000	272,498	552,498
6/30/2028	280,000	259,824	539,824
6/30/2029	280,000	247,149	527,149
6/30/2030	280,000	234,475	514,475
6/30/2031	280,000	221,801	501,801
6/30/2032	280,000	209,126	489,126
6/30/2033	280,000	196,452	476,452
6/30/2034	280,000	183,778	463,778
6/30/2035	280,000	171,103	451,103
6/30/2036	280,000	158,429	438,429
6/30/2037	280,000	145,755	425,755
6/30/2038	280,000	133,080	413,080
6/30/2039	280,000	120,406	400,406
6/30/2040	280,000	107,732	387,732
6/30/2041	280,000	95,057	375,057
6/30/2042	280,000	82,383	362,383
6/30/2043	280,000	69,709	349,709
6/30/2044	280,000	57,034	337,034
6/30/2045	280,000	44,360	324,360
6/30/2046	280,000	31,686	311,686
6/30/2047	280,000	19,011	299,011
6/30/2048	280,000	6,337	286,337

Vermont Bond Bank Financial Medians



Vermont
Bond Bank



2022 VERMONT BOND BANK
VERMONT BOND BANK FINANCIAL MEDIANS

Released September 22, 2022

- Relies on Bond Bank's annual portfolio monitoring including both Pooled Loan Program and SRF Activities
- Published annually (2020 forward)
- Vermont specific benchmarking tool with comparison to investment grade Moody's medians

GOV ACTIVITIES MEDIANS

	2022 Medians		2021 Medians		2020 Medians	
	Medians	Count	Medians	Count	Medians	Count
Unassigned Balance as % of Rev	13.60%	98	10.40%	83	9.31%	47
Cash as % of Rev	72.39%	100	65.86%	87	51.32%	44
Intergovernmental as % of Rev	9.15%	84	8.15%	67	8.04%	31
Total LTD	849,101	98	929,550	93	1,503,004	48
DS as % of OpEx	6.21%	81	8.08%	74	8.70%	45
DS as % of Rev	5.89%	86	7.45%	76	8.75%	45
LTD as % of Rev	35.05%	97	34.98%	91	57.65%	47
LTD as % of Value	0.26%	81	0.22%	85	0.42%	48
10 Yr Debt Payoff	83.33%	81	80.53%	75	69.92%	38

As of August 30, 2022
Last Audit or other FS
N= 104

As of August 26, 2021
Last Audit or other FS
N= 89

As of August 6th, 2020
Last Audit or other FS
N= 48



Vermont
Bond Bank