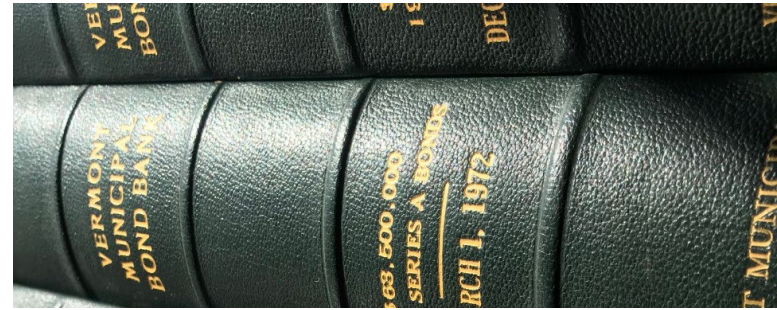




Vermont
Bond Bank



SCHOOL CONSTRUCTION FINANCE IN VERMONT
FEBRUARY 24, 2023

Bond Bank history

REQUISITION AS TO LOANS FROM LOAN ACCOUNTS

January 11, 1971

Bankers Trust Company
1 Battery Park Plaza
New York, New York

Gentlemen:

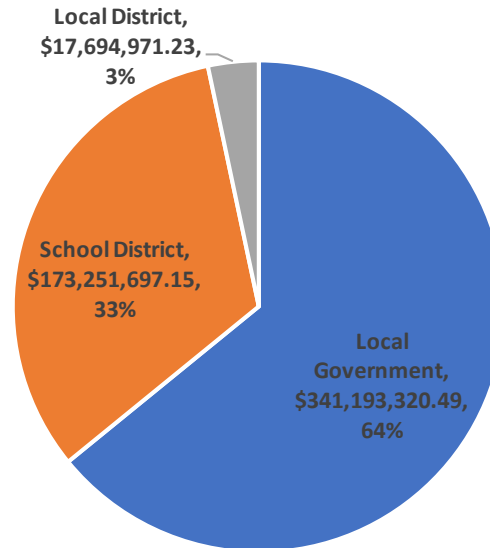
Pursuant to Section 503 of the General Bond Resolution of the Vermont Municipal Bond Bank adopted on December 21, 1970, you are hereby instructed to pay from the following loan accounts the amounts to the respective municipalities as shown below:

<u>Loan Accounts</u>	<u>Amounts</u>	<u>Municipalities</u>
Berkshire Town School District	\$ 260,000	Berkshire Town School District
Berlin Town School District	520,000	Berlin Town School District
Brighton Town School District	370,000	Brighton Town School District
Cabot Town School District	430,000	Cabot Town School District
Calais Town School District	215,000	Calais Town School District
Castleton Town School District	700,000	Castleton Town School District
Charleston Town School District	400,000	Charleston Town School District
Charlotte Town School District	300,000	Charlotte Town School District
Charendon Town School District	440,000	Charendon Town School District
Colchester Town School District	1,500,000	Colchester Town School District
Dover Town School District	575,000	Dover Town School District
Essex Town School District	1,235,000	Essex Town School District
Essex Junction Graded School District	3,160,000	Essex Junction Graded School District
Grand Isle Town School District	135,000	Grand Isle Town School District
Hartland Town School District	500,000	Hartland Town School District
Hinesburg Town School District	450,000	Hinesburg Town School District
Peacham Town School District	90,000	Peacham Town School District
St. Albans Town School District	300,000	St. Albans Town School District
St. Johnsbury Town School District	1,035,000	St. Johnsbury Town School District
Shelburne Town School District	1,120,000	Shelburne Town School District
Sherburne Town School District	465,000	Sherburne Town School District
South Burlington Town School District	1,440,000	South Burlington Town School District
South Burlington Town School District	440,000	South Burlington Town School District
Sunderland Town School District	200,000	Sunderland Town School District
Underhill Graded School District, Inc.	325,000	Underhill Graded School District, Inc.
Wilmington Town School District	655,000	Wilmington Town School District
Braintree-Randolph UHSD No. 2	970,000	Braintree-Randolph UHSD No. 2
Woodstock UHSD No. 4	870,000	Woodstock UHSD No. 4
Missisquoi Valley UHSD No. 7	870,000	Missisquoi Valley UHSD No. 7
Missisquoi Valley UHSD No. 7	345,000	Missisquoi Valley UHSD No. 7
Mt. Mansfield UHSD No. 17	2,000,000	Mt. Mansfield UHSD No. 17
Lamoille UHSD No. 18	3,875,000	Lamoille UHSD No. 18
	680,000	

Vermont Municipal Bond Bank (d/b/a Vermont Bond Bank)

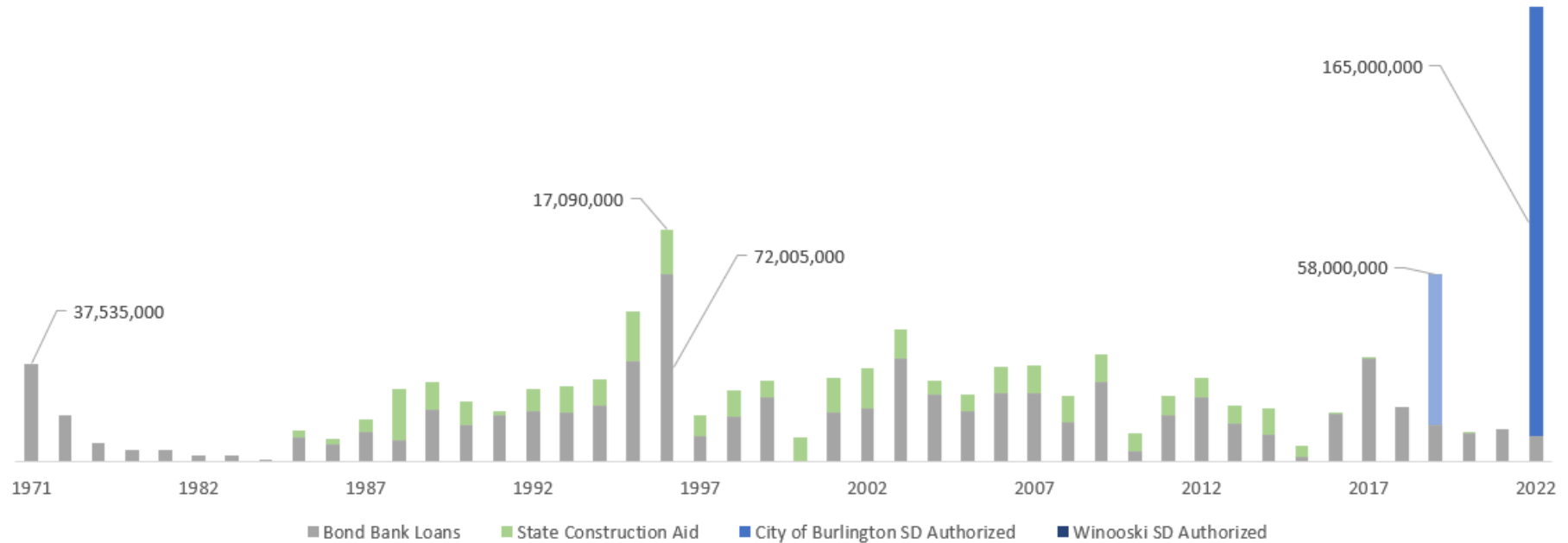
- Bond Bank was created in Fiftieth Biennial Session (1969 / 1970) by the General Assembly
- Creation followed period of school construction spending financed with short term borrowing
- Bond Bank provided long term financing solution
- First bond issue in 1971 exclusively provided loans to local schools

LOANS OUTSTANDING AS OF DECEMBER 31, 2022 (\$532 mm)



Historical Bond Issuance Activity (Nominal \$)

NOMINAL VT SCHOOL CONSTRUCTION SPENDING - 1971 TO PRESENT

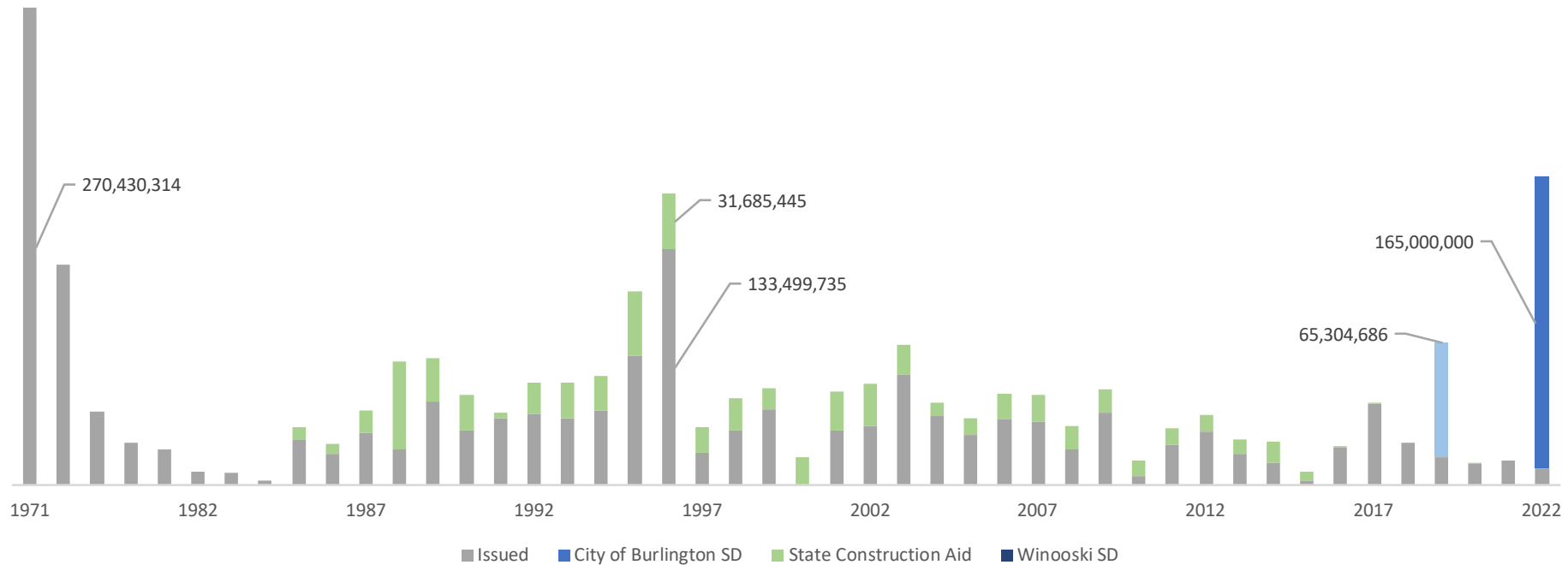


Sources: VT Bond Bank; VTJFO

- Unadjusted dollars
- Exclusively reflects Bond Bank data for loan activity (i.e. loans through private banks or other sources not part of dataset)
- Bond Bank made \$807.08 million in loans over past 52 years
- Total activity of shown of \$1.316 billion (61% Bond Bank; 22% State Aid)

Historical Bond Issuance Activity (Real \$)

NE URBAN CPI ADJUSTED VT SCHOOL CONSTRUCTION SPENDING - 1971 TO PRESENT



Sources: VT Bond Bank; VTJFO

- Dollars adjusted using Northeast Urban CPI from BLS; does not consider construction cost indices
- Exclusively reflects Bond Bank data for issuance activity (i.e. loans through private banks or other sources not part of dataset)
- On inflation adjusted basis, Bond Bank made \$1.69 billion in loans over past 52 years
- Total activity shown of \$2.416 billion (70% Bond Bank; 21% State Aid)

Financial median comparison

		Median	Moody's Median*	
Category	Definition (Adopted from Moody's Investor Services Definitions)	Bond Bank	All	"A" Rated w/Enrollment >1k and <=5k
Unassigned / assigned GF Balance as % of Revenue	Combined unassigned and assigned general fund balance divided by total general fund revenues	3.7%	24.8%	20.7%
Cash as % of Revenue	Cash and investments for the general fund, divided by total general fund revenues	15.6%	28.7%	24.1%
Total Long-Term Debt	Bonded debt and similar obligations reported for Governmental Activities only (i.e. no enterprise or business type activities); debt associated with pending loan applications included	\$1.67 million	\$33.97 million	\$25.52 million
Debt Service as % of Operating Expenses	Debt service expenditures (principal and interest) for all operating funds combined divided by operating expenditures (including expenditure of debt service funds); debt service associated with pending loan applications included	2.0%	---	---
Debt Service as % of Revenue	Debt service expenditures (principal and interest) for all operating funds (including debt service funds) combined divided by operating revenues including expenditure of debt service funds; debt service associated with pending loan applications included	1.9%	5.5%	5.9%
10 Year Debt Payoff	Amount of principal that will be amortized in next ten years divided by total long-term debt (debt associated with pending loan applications not included)	93.2%	---	---
Long Term Debt to Revenue	Long-term debt (including current portion and capital leases) divided operating revenues (expressed as a percent)	10.8%	---	---
Capital Asset Depreciation	Ratio of Accumulated Depreciation to Gross Depreciable Assets (excluding land and construction in progress). A ratio above 65% indicates reinvestment in capital assets is lagging behind depreciation, signaling the likelihood (necessity) of future debt issuance.	---	42.5%	44.6%

*"Public K-12 School Districts – US: Medians," published May 25, 2022

State support for school financing via Bond Bank

Legislative Legal Protections

- 24 V.S.A 4652 – “...that governmental unit is deemed to agree that on the failure of that governmental unit to pay interest or principal on any of the municipal bonds or revenue bonds owned or held by the bank when payable, all defenses to nonpayment are waived...if funds are not available in its treasury to make payment...shall forthwith assess a tax on the grand list of the governmental unit...All of the bonds of...governmental unit on which there is nonpayment...deemed due and thereon, and cause the tax to be collected within 60 days”

* See resolution changes

Moral Obligation*

- Moral Obligation provided in the form of DSRF make-up subject to appropriation
- 24 V.S.A 4675 – “The Chair shall annually, on or before February 1, make and deliver to the governor or to the governor-elect, his or her certificate stating the sum required to restore the fund to the amount aforesaid, and the governor or governor elect shall...submit a request for appropriations”

State Intercept

- State Treasurer has authority to intercept funds by VMBB notice
- Original authorization modified in 2016 to allow funds to be passed directly to trustee
- Procedures for receiving intercepted funds outlined in MOU dated January 26, 2017
- 24 VSA 4555 – “Any monies in the custody of the State Treasurer... to assist any governmental unit in payment of its municipal bonds or revenue bonds acquired or held by the Bank”

- All borrowers receive same Bond Bank cost of capital without modification other than to ensure cashflow sufficiency for related bond payments
- School loans, in aggregate, have weighted rate of 3.22% with average life of approximately 7 years
- Above effective rate will change as Bond Bank realizes refunding savings on underlying bonds and passes through savings to borrowers

Intercept programs to enhance school financing

- Nearly every state has some sort of credit enhancement for school construction financings
- Most programs structured around a state intercept program
- Typically “notched” off the GO rating of the state
- Vermont State Intercept Program rated “Aa3”

Vermont Municipal Bond Bank

Update to credit analysis

Summary

The [Vermont Municipal Bond Bank](#) (Aa2 stable) demonstrates strong pool program characteristics including a stable and overall credit quality of pool participants, many of which are supported by the [Vermont State Aid Intercept Program](#) (Aa2 stable); large size and diversity of the pool; and the program’s sound governance structure and legal provisions. The program also benefits from strong and proactive management and oversight. The bond bank’s annual debt service is structured to yield just over 1 times coverage supported by a large debt service reserve fund that yields 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) moral obligation to restore the debt service reserve fund if it is drawn on, subject to appropriation.

Credit strengths

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

MOODY’S INVESTORS SERVICE

Rating Action: Moody’s assigns Aa3 enhanced rating to RIHEBC’s \$34 million Series 2022 A bonds (City of Pawtucket)

08 Dec 2021

NOTE: On December 14, 2021, the press release was corrected as follows: In the first sentence of the press release, the sale description was changed to “Public Schools Revenue Bond Financing Program Revenue Bonds, Series 2022 A (City of Pawtucket Issue).” Revised release follows.

NOTE: On December 10, 2021, the press release was corrected as follows: The Rating Outlook section was removed. Revised release follows.

New York, December 08, 2021 -- Moody’s Investors Service has assigned an Aa3 enhanced rating to the Rhode Island Health and Educational Building Corporation’s (RIHEBC) \$34 million Public Schools Revenue Bond Financing Program Revenue Bonds, Series 2022 A (City of Pawtucket Issue).

RATINGS RATIONALE

The Aa3 enhanced rating is based on the mechanics of the Rhode Island Health and Educational Building Corporation (RIHEBC) Intercept Program (monthly pay), which is informed by the State of Rhode Island’s (Aa2 stable) rating. The rating is also based on the projected debt service coverage by the City of Pawtucket’s (A3) State Basic Education and State Housing Aid on RIHEBC obligations.

Annually, Basic Education aid (\$95.4million) plus existing and projected Housing Aid (\$5.9 million) equals \$101 million and would provide 14.7 x pro forma annual debt service of \$6.89 million.

TABLE 4: State Aid Intercept Programs

Program Name	Program Ratings	State Ratings
Missouri School District Direct Deposit	Aa1 / AA+ / AA+	Aaa / AAA / AAA
Georgia School District Intercept	Aa1 / AA+ / AA+	Aaa / AAA / AAA
Indiana School District Enhancement	NR / AA+ / AA+	Aaa / AAA / AAA
Virginia Localities Intercept	Aa1 / NR / NR	Aaa / AAA / AAA
Ohio School District Credit Enhancement	Aa2 / AA / AA	Aa1 / AA+ / AA+
Massachusetts Qualified Bond	Aa2 / AA / NR	Aa1 / AA / AA+
Arkansas School District Intercept	Aa2 / NR / NR	Aa1 / AA / NR
Colorado School District Credit Enhancement	Aa2 / AA- / AA	Aa1 / AA / NR
Dormitory Authority of State of New York School District Intercept	Aa3 / NR / NR	Aa2 / AA+ / AA+
New Mexico School District Intercept	Aa3 / NR / NR	Aa2 / AA / NR
Mississippi School District Debt Enhancement	NR / AA- / NR	Aa2 / AA / AA
Pennsylvania School District Intercept	A2 / NR / A+	Aa3 / A+ / AA-
Kentucky School District Enhancement	A1 / A-[+] / A+	Aa3 / A-[+] / AA-
New Jersey Qualified Bond	A3 / BBB[+] / BBB[+]	A2 / BBB[+] / A-[+]

[–] Negative Outlook; [+] Positive Outlook; NR = Not Rated

Source: Moody’s Investors Service, S&P Global Ratings, Fitch Ratings, FCM, as of March 11, 2022.

Source: Fidelity Capital Markets; State School District Credit Enhancement Programs

Shortcoming of Vermont State Intercept Program

- Intercept only works if dollars are available to be intercepted in an amount that is excess of debt service payments
- Vermont State Intercept Program is effectuated via MOU with State Treasurer that requires the funds due to the district be redirected to the Bond Bank's bond trustee in the event of non-payment
- On paper, every school district should be above excess of 1.00 to 2.00x debt service coverage because of ed fund support
- In reality, taxes that are collected at municipal level and transferred locally to school districts cannot currently be intercepted
- Above potentially results in less intercept coverage for school district undertaking large financings and results in borrowers and Bond Bank not benefitting from Vermont State Intercept Program rating of "Aa2"

Current

5 of 53 school district borrowers
currently below 2.00x intercept
coverage

Pro forma addition of \$30 mm in new debt

19 of 53 school district borrowers
would be below 2.00x intercept
coverage

Punchline of General Resolution changes

STATE INTERCEPT

Aa2

>

MORAL OBLIGATION

Aa3*

However....

- Moral obligation taken into consideration in assessing default tolerance of loan pool
- Can be overcome through over-collateralization in lien
- Above achieved by using senior and subordinate structures



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