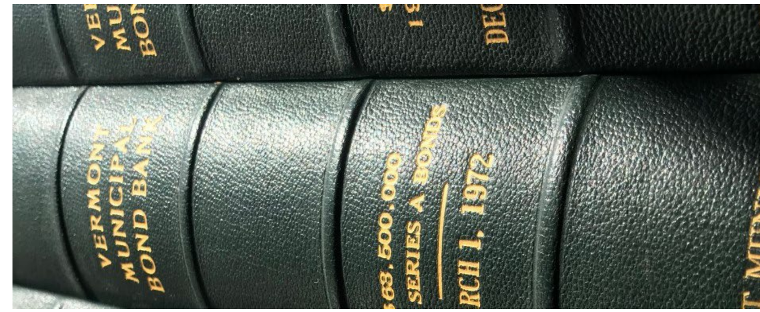
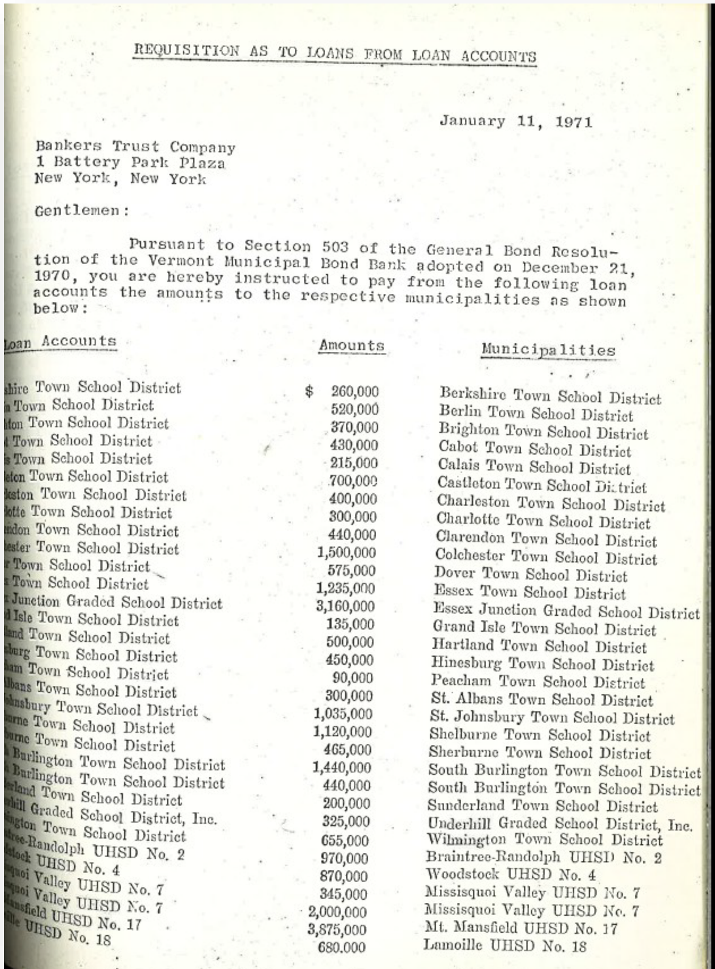
Vermont Bond Bank



STATE AID FOR SCHOOL CONSTRUCTION WORKING GROUP
SEPTEMBER 27, 2024

Bond Bank History



REQUISITION AS TO LOANS FROM LOAN ACCOUNTS

January 11, 1971

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

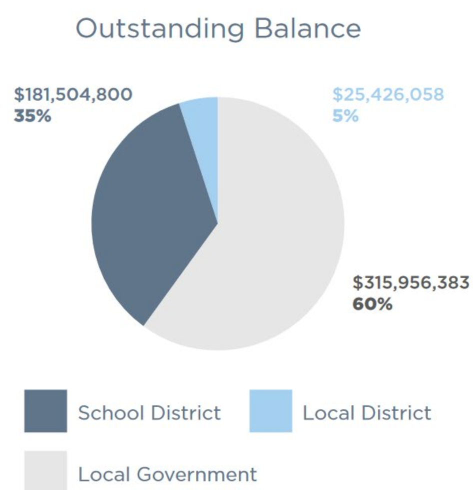
Gentlemen:

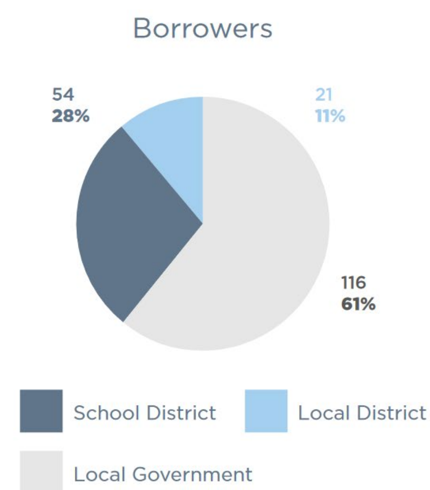
Pursuant to Section 503 of the General Bond Resolution of the Vermont Municipal Bond Bank adopted on December 21, 1970, you are hereby instructed to pay from the following loan accounts the amounts to the respective municipalities as shown below:

Loan Accounts	Amounts	Municipalities
shire Town School District	$ 260,000	Berkshire Town School District
n Town School District	520,000	Berlin Town School District
lton Town School District	370,000	Brighton Town School District
l Town School District	430,000	Cabot Town School District
s Town School District	215,000	Calais Town School District
leton Town School District	700,000	Castleton Town School District
kston Town School District	400,000	Charleston Town School District
lotte Town School District	300,000	Charlotte Town School District
ndon Town School District	440,000	Clarendon Town School District
ester Town School District	1,500,000	Colchester Town School District
r Town School District	575,000	Dover Town School District
x Town School District	1,235,000	Essex Town School District
x Junction Graded School District	3,160,000	Essex Junction Graded School District
d Isle Town School District	135,000	Grand Isle Town School District
land Town School District	500,000	Hartland Town School District
burg Town School District	450,000	Hinesburg Town School District
ham Town School District	90,000	Peacham Town School District
lbans Town School District	300,000	St. Albans Town School District
hnsbury Town School District	1,035,000	St. Johnsbury Town School District
urne Town School District	1,120,000	Shelburne Town School District
urne Town School District	465,000	Sherburne Town School District
h Burlington Town School District	1,440,000	South Burlington Town School District
h Burlington Town School District	440,000	South Burlington Town School District
rland Town School District	200,000	Sunderland Town School District
hill Graded School District, Inc.	325,000	Underhill Graded School District, Inc.
ngton Town School District	655,000	Wilmington Town School District
ree-Randolph UHSD No. 2	970,000	Braintree-Randolph UHSD No. 2
stock UHSD No. 4	870,000	Woodstock UHSD No. 4
quoi Valley UHSD No. 7	345,000	Missisquoi Valley UHSD No. 7
quoi Valley UHSD No. 7	2,000,000	Missisquoi Valley UHSD No. 7
nsfield UHSD No. 17	3,875,000	Mt. Mansfield UHSD No. 17
lle UHSD No. 18	680.000	Lamoille UHSD No. 18

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





Vermont Educational & Health Bldgs Fin Agency

VEHBFA was created by the Vermont legislature in 1966 to benefit the people of Vermont as it relates to their education, health, welfare, and prosperity. VEHBFA conducted its first financing in 1969 following additional amendments. The Agency provides access to tax-exempt and taxable financing as a conduit issuer of bonds.

Limited purposes of bonds and types of issuers may issue "private activity bonds" under federal tax law. Examples include bonds for some affordable housing projects as well as 501(c)(3) organizations. However, these bonds must be issued through a governmental entity and are subject to federal TEFRA approval. The full financial obligation is passed through to the ultimate beneficiary (called the "obligor"). **No financial resources of VEHBFA or the state are committed**.

Disclosure Examples Demonstrating Financial Independence of the Transaction

STATE NOT LIABLE ON BONDS

The State is not liable for the payment of the principal of and premium, if any, and interest on the Bonds, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Agency, and neither the Bonds nor any of the Agency's agreements or obligations shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provision whatsoever, nor shall the Bonds directly or indirectly or contingently obligate the State or any municipality or political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment.

The Bonds are limited obligations of the Agency. The Agency is not obligated to pay the principal of or premium, if any, or interest on the Bonds except from the sources described above. The Bonds do not constitute or create any debt, liability or obligation of the State or any political subdivision or instrumentality thereof (other than the Agency) or a pledge of the faith and credit of the State or any political subdivision or agency of the State, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged as security for the payment of the principal of or premium, if any, or interest on the Bonds.

Bond Bank Priorities for School Construction Aid

Vermont's school facilities are a liability that requires a policy solution
The current system is not keeping pace with depreciation, which increases financial risk to school districts.

Schools are social infrastructure with and without students
In the process of finding efficiency, Vermont cannot make this a zero-sum decision for communities and should assist communities in preserving social infrastructure with planning and capital grants alongside subsidies for new school construction. Adaptive reuse of schools for housing has occurred throughout the state and is one example of a potential "win-win" outcome.

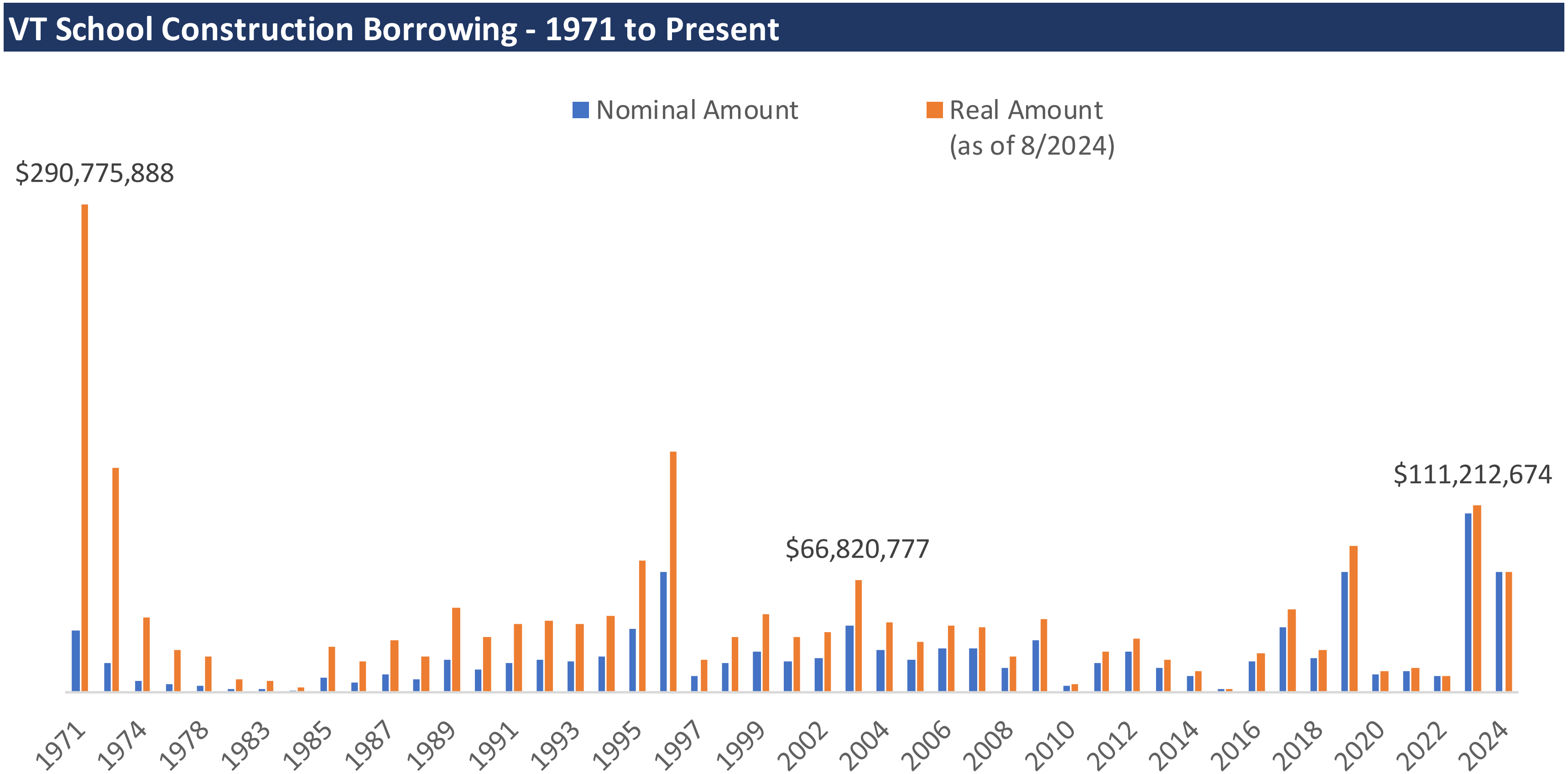
Vermont has an economic mechanism but not a political economy for financing school construction The political economy of school construction must be changed through financial incentives. The Bond Bank regularly provides estimated debt service schedules for schools considering bond votes. It also regularly receives notice that the bond votes failed.

The State of Vermont's credit rating should be leveraged through the Bond Bank
The Bond Bank's public credit rating is derived from the State of Vermont but its debt issuance has minimal impacts on the state's rating. This is not an accident, and the Bond Bank took significant steps over the past several years to restructure the security structure of its bonds to allow this flexibility.

The Bond Bank's state intercept should be perfected by modifying the flow of educational property taxes
On paper, every school district in Vermont should benefit given a statewide educational tax system but the Bond Bank can only intercept dollars that come from the State of Vermont to borrowers and not dollars transferred from town tax collectors to school districts directly. Rerouting this flow of funds from town tax collectors to the state would allow the Bond Bank to "perfect" the intercept credit enhancement and ensure every school district would benefit while also allowing every borrower to benefit from this enhancement.

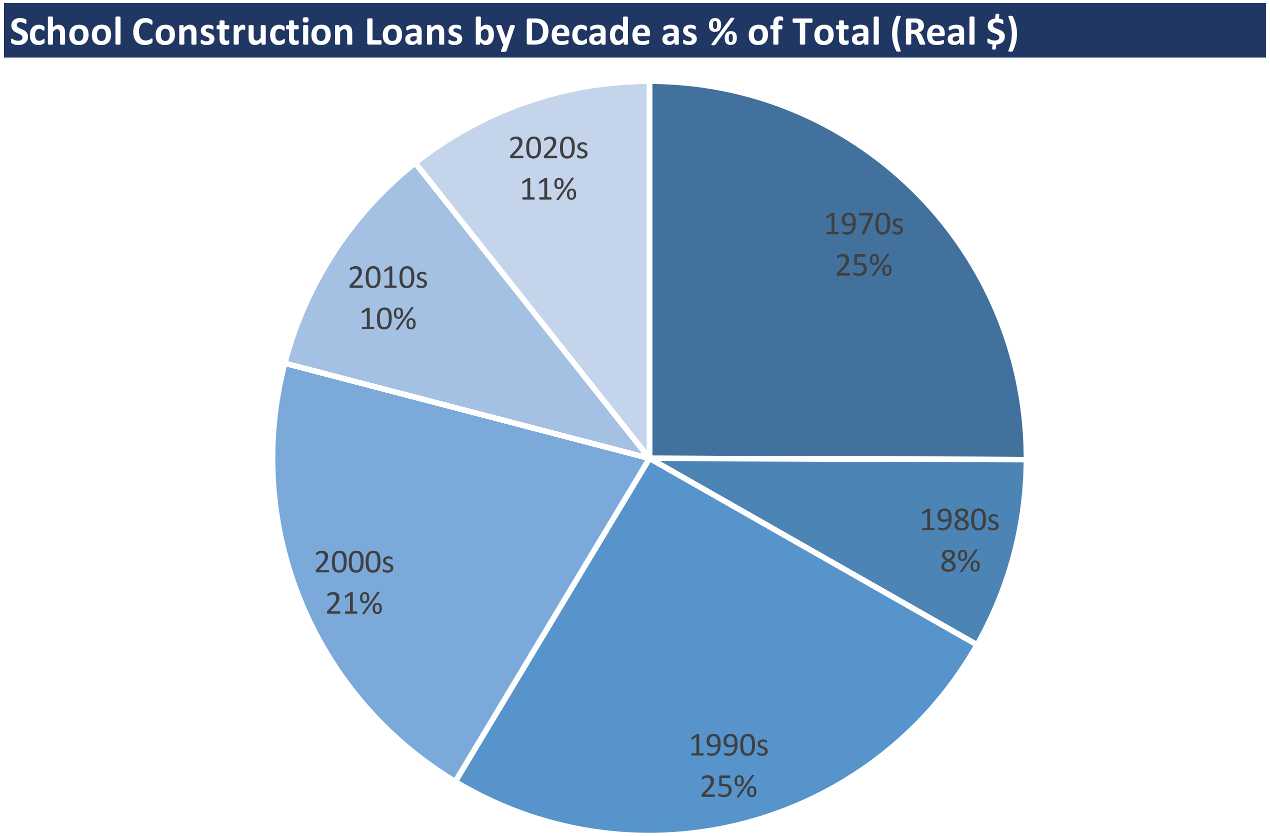
State support should be optimized when other low-cost sources are available
Energy efficiency and renewable energy components of projects will benefit from incentives through the Inflation Reduction Act and energy efficiency utilities within the state. Financial support for schools should be directed to the aggregate project cost rather than specific uses for this reason.

Historical Bond Issuance Activity



- Exclusively reflects Bond Bank data for loan activity as well as Winooski & Burlington Loans (i.e. loans through private banks or other sources not part of dataset)
- **$2.065 billion in real dollars over past 53 years**

Historical Bond Issuance Activity



- Exclusively reflects Bond Bank data for loan activity as well as Winooski & Burlington Loans (i.e. loans through private banks or other sources not part of dataset)
- Bond Bank made $2.065 billion in real dollars over past 53 years

National Financial Ratio 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	6.0%	26.8%	23.5%
Cash as % of Revenue	Cash and investments for the general fund, divided by total general fund revenues	12.9%	31.2%	26.8%
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	$2.04 million	$35.3 million	$26.0 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	1.5%	---	---
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	1.4%	5.5%	5.8%
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)	93.0%	---	---
Long Term Debt to Revenue	Long-term debt (including current portion and capital leases) divided operating revenues (expressed as a percent)	7.4%	---	---
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.	56.4%	---	---

[Note] 2023 Moody's Medians; 2024 not available
*from financial statements not facilities assessment

Intercept Programs to Support Schools

- 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 “Aa2”

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 its 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

Implicit Equity in the Bond Bank's Structure

Vermont
Bond Bank

Vermont Bond Bank; State Revolving Funds/Pools

Credit Profile		
US$30.92 mil local investment bnds ser 2032 2 due 12/01/2053		
Long Term Rating	AA+/Stable	New
US$20.585 mil rfdg bnds ser 2023 3 due 12/01/2033		
Long Term Rating	AA+/Stable	New

Portfolio Diversification – diversified portfolio across the state partially mitigates environmental exposure

Access and Rate Equity – same rate provided to all borrowers

Vermont Municipal 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 are supported by the Vermont State Aid Intercept Program (Aa2 stable). The bond bank's pool of participants is large and very diverse with a 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 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.

Stability and expertise despite local staffing challenges – consolidated debt expertise despite wider financial officer recruitment challenges

Local School Bond Issuance Capacity

High Potential for Market Absorption

Market Absorption. Sustained loan portfolio growth and bond issuance growth will help the Bond Bank find better market access and investor focus, even with a split structure of Senior and Subordinate bonds. The Bond Bank has been prudent in utilizing bank loans for smaller financings and also recently evaluated its ability to access the competitive market with success. As the Bond Bank's longstanding senior manager, owner of the largest retail presence in the market, and leading institutional distribution capabilities, we have unmatched knowledge of how investors evaluate the Bond Bank. We do not think there is a specific limit to market absorption of the Bond Bank's bonds now or in the future. Many of the Bond Bank's peers have significantly more debt outstanding. VRA has about $5.5 billion of debt outstanding across its Infrastructure and Moral Obligation program which is roughly 10x the amount of debt the Bond Bank has outstanding. As a long-standing senior manager for VRA, we can firmly state that VRA has strong market access and regularly utilizes a combination of negotiated and competitive bond sales with tight pricing results.

As discussed with the Bond Bank and its financing team in advance of the Summer 2022 sale, we also think it's important to state that investors are well aware of the changes the Bond Bank is making. Certain investors asked questions regarding the General Resolution modifications to simply help understand what was changing and there were no concerns raised. The Summer 2022 and Winter 2023 sales went well, and we are not aware of any investors that did not purchase the bonds due to the proposed indenture modifications. Investors are consenting to the changes by buying the bonds and continuing to support the VBB and its underlying borrowers.

19. Provide an overview of the current buy-side environment for municipal-specific funds that cater to social or environmental criteria. Discuss what, if anything, the Bond Bank should consider changing to benefit from these funds. Discuss any pricing differentials and the benefit of designating bonds (i.e., Green, Social, etc.…) versus the Bond Bank's

RELATIONSHIP OF SUBSIDY AMOUNT AND TOTAL DEBT

		Debt Service Aid / Subsidy	
School Debt	**Annual PMT**	**20%**	**40%**
$100	$5.78	$1.16	$2.31
$1,000,000	$57,830	$11,566	$23,132
$10,000,000	$578,301	$115,660	$231,320
$100,000,000	$5,783,010	$1,156,602	$2,313,204
$1,000,000,000	$57,830,099	$11,566,020	$23,132,040

[Note] For illustrative purposes only;
Assumes current market conditions and 30 year level d/s

But…at what cost?

- Downgrades to either the State of Vermont or Bond Bank's credit rating would impact all governmental units across the state
- National school medians for d/s to operating revenue is 5.5%
- Applied to statewide education spending in FY 23 ($1.56 b) the above ratio would support approximately $86 million in annual d/s, which equates to approximately $1.2 billion in debt using Moody's methodology (i.e. 20 year level d/s at current market rates)
- Combined debt outstanding of the Bond Bank and State of Vermont equals approximately $1.2 billion

Concurrent Statewide Goals

- Growing Vermont's workforce and reversing an aging population
- Improving housing options by lowering geographic disparities in access to quality educational facilities
- Access to climate resilient social infrastructure to support community needs

Considerations for Procurement

- Concurrent need for mobilization of construction resources for schools across state
- Will occur against backdrop of competing needs for a limited construction supply
- Premium for budget certainty at state and local level among other escalating school operating costs
- Post construction operations and maintenance of new facilities will occur against backdrop of workforce issues and need for budget certainty
- Above issues will be more acute for new construction
- *Considerations above are a common pre-text to public private partnerships (P3) transactions (i.e. design build operate maintain – DBOM); notably financing of P3 unlikely to be advantageous given Bond Bank structure*

Vermont
Bond Bank