S&P Global
Ratings

RatingsDirect®

Summary:

Maine Municipal Bond Bank; Moral Obligation; State Revolving Funds/Pools

Primary Credit Analyst:
John Kennedy, CFA, Chicago +1-312-233-7088; john.kennedy@spglobal.com

Secondary Contact:
Autumn R Mascio, New York + 1 (212) 438 2821; autumn.mascio@spglobal.com

Table Of Contents

Summary:

Maine Municipal Bond Bank; Moral Obligation; State Revolving Funds/Pools

Credit Profile		
US$30.33 mil 2023 series A bnds ser 2023 A due 11/01/2048		
Long Term Rating	AA+/Stable	New
Maine Mun Bnd Bank SRF		
Long Term Rating	AA+/Stable	Affirmed
Maine Mun Bnd Bank MORALOBLIG		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Maine Municipal Bond Bank's $30.330 million series 2023A bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the bank's other general resolution bonds.
- The outlook is stable.

Security

The bank will use the bond proceeds to make loans to 14 borrowers. The bond bank's full faith general obligation pledge, municipal bonds purchased from governmental units borrowing funds from the bank, municipal bond payments made under the bank's 1973 general resolution, and various funds and accounts established under the resolution all secure the bonds. Municipal bonds are purchased from governmental units with the proceeds of the bond bank's bonds.

Credit overview

The 'AA+' rating reflects our view of the following strengths:

- A very strong enterprise risk profile, given that the pool has explicit statutory support from the state government to support debt service if needed, and was also established by statute; and
- An extremely strong financial risk profile, reflecting its loss coverage score (LCS), operating performance, and financial policies.

Offsetting these strengths is a relatively lower size of reserves, including supplemental and discretionary reserves, as a proportion of the loan portfolio outstanding, compared with those of highly rated peers.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that management will maintain its current set of policies and practices and continue to make loans to a diverse base of borrowers. As additional bonds are issued, we also expect the bank will continue its historical practice of increasing the bond-funded debt service reserve (DSR) fund balance and maintain at least some other equity positions in its other nonbond-funded reserve funds.

Downside scenario

Within the two-year outlook horizon, we could lower the rating or revise the outlook to negative if pledged reserve funds and other reserve balances do not continue to increase in size in proportion to the overall loan portfolio. Because the pledged DSR is eventually liquidated to make bond payments, the amount of other liquidity and available reserves is a key credit factor in maintaining the current rating. In addition, the rating or outlook could be weakened if the program starts to experience loan delinquencies or defaults, although we understand that in practice a majority of the loans have a state aid intercept feature to help minimize actual losses.

Upside scenario

We do not consider an upgrade likely, at least within the two-year outlook horizon, because it would likely require an improvement in the enterprise risk profile. An improvement in this score is possible if the statutory framework for the program changes, but we view this possibility as remote in the near term.

Credit Opinion

Enterprise risk

We view the enterprise risk profile of the program as very strong due to a combination of the low industry risk profile for municipal pools and the program's market position, which we also consider very strong. Maine Municipal Bond Bank was established in 1973 as outlined in Title 30-A, Chapter 225 of Maine Revised Statutes. Explicit statutory language exists for state support of debt service if needed through both a state aid intercept mechanism and a moral obligation of the state to replenish the DSR to the required level if it ever falls below this point. The state is also empowered to take control of the finances of any borrower that defaults on a municipal bond payment to the bond bank. All funds remain in the bank and are not transferred to other agencies or departments.

Maine Municipal Bond Bank provides loans to a variety of governmental units in Maine. As of this issue, about $1.0 billion of loan principal repayments will be due from a diverse pool of 254 borrowers compared with about $1.1 billion of bonds outstanding. A large portion of the bond bank's loan portfolio consists of school projects eligible for debt service subsidies under Maine's school construction program. Maine provides an annual state subsidy, subject to annual state appropriation, for debt service costs for eligible projects; these subsidy payments are paid directly to the bond bank's trustee on behalf of the local unit. The subsidy typically ranges from 15%-85%, with certain projects receiving a full 100% reimbursement. After the 2023A bonds close, the city of Sanford will remain the largest borrower (12.8% of the outstanding loan portfolio); no other borrower represents more than 6% of principal outstanding). Geographic diversification is also evident, with the greatest concentration of loans by par amount located in a single county reaching 17.2% for York County, and loans spread out to 16 counties throughout the state.

Financial risk

We view the financial risk profile of the program as extremely strong, reflecting the combination of the LCS, historical operating performance, and management policies.

We assess the program's LCS as extremely strong based on our view of over-collateralization under our loss coverage test. The cash flow pattern is able to withstand default stress at a 'AAA' rating category and receives a favorable score on the largest obligor test. Over-collateralization available to cure loan defaults comes from the pledged supplemental reserve fund within the general resolution and an unpledged discretionary reserve that we view as available. Pursuant to the first supplemental to the general resolution, funds held in the supplemental reserve must be used to bring the reserve fund to the required amount before the bank requests a state appropriation for the same purpose. We understand that management would also use any funds in the discretionary reserve before liquidating funds in the DSRF; however, there is no legal requirement to do so, as those funds are not pledged under the resolution.

We have incorporated the state aid intercept provision and moral obligation of the state to replenish the bank's DSR into our analysis in two ways. First, the credit quality of the underlying borrowers is supported, in our view, by a state aid intercept mechanism. Title 30-A section 6014 of the Maine Revised Statutes established this state aid intercept provision. If a governmental unit fails to make a scheduled principal or interest payment on its municipal bonds held by the bank, the state treasurer will pay to the bank the amount of the shortfall, provided the bank gave notice to the treasurer of said shortfall and there are available funds held by the treasurer that would otherwise be due to the defaulting governmental unit. To the extent that there is still a shortfall, then the treasurer can continue to withhold appropriated funds until the shortfall owed to the bank is cured. Second, we have allowed for 95% recovery of defaulted revenues due to the presence of a moral obligation to replenish the DSRF to the required level (maximum annual debt service on the municipal loan obligations, as defined in the 1973 general resolution), outlined in Chapter 30-A section 6006 of the state's Revised Statutes. The bank's chair will, no later than Dec. 1, of each year, submit to the governor a written request for an appropriation for the sum, if any, required to ensure that the bond reserve fund equals the bond reserve fund requirement. A provision in the act establishing the bond bank obligates the state morally, though not legally, to make up through annual appropriations any deficiency that might occur in this fund.

Annual debt service coverage from pledged loan repayments, interest earnings on investments, and planned annual maturities of reserve fund investments have been shown by management to be about 1x in each year, with any surplus revenues then able to accumulate over time and also available to cure defaults if needed. The bond-funded DSR must be drawn down over time to make debt service payments and is not projected to increase from nonbond-funded sources due to the lack of significant equity support from multiple levels of government, as some other pool programs receive. We view this characteristic as marginally weaker compared with other programs that have substantially all program reserves funded through equity contributions that are not needed to make debt service payments. The current DSR fund valuation of $143 million (at cost, before an additional deposit related to the series 2023A bonds) is substantial, with 100% of the reserve funded with bond proceeds. The reserve is composed of various U.S. government obligations, cash, and guaranteed bank investment contracts.

Averaging all of the financial policies and practices, we view these as strong. Management performs credit reviews for all new loans and requires all borrowers to submit annual disclosure. New loan payments are made 30 days before debt service, but older loans have payments due five days beforehand. At this point, 65% of loans are required to make payments 30 days before the debt service payment date, including all newly originated loans. Management can approve loans as it receives applications and generally knows loan demand six months to one year in advance of each bond sale. Investment guidelines are defined in the resolution and are structured to mature when the related bond payment is due. Management has indicated that since the program's inception in 1973, there have been no loan defaults or delinquent payments, which we view as extremely low.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2023 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.