

# RatingsDirect®

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**Summary:**

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

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### Credit Profile

US\$83.158 mil bnds ser 2023B due 11/01/2043

<i>Long Term Rating</i>	AA+/Stable	New
Maine Mun Bnd Bank SRF		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maine Mun Bnd Bank MORALOBLIG		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Maine Municipal Bond Bank's \$83.158 million series 2023B 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 16 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 the pool's 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 higher-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 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 rating. In addition, we could lower the rating or revise the outlook to negative 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.

The bank provides loans to a variety of governmental units in Maine. As of this issue, about \$1.12 billion of loan principal repayments will be due from a diverse pool of 263 borrowers compared with about \$1.11 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 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 2023B bonds close, the City of Sanford will remain the largest borrower (11.6% of the loan portfolio outstanding); no other borrower represents more than 6% of principal outstanding).

## **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 overcollateralization under our loss coverage test. The cash flow pattern is able to withstand default stress at the 'AAA' rating category and receives a favorable score on the largest obligor test. Overcollateralization 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, money 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 money in the discretionary reserve before liquidating funds in the DSR fund; however, there is no legal requirement to do so, as those funds are not pledged under the resolution.

We have considered the state aid intercept provision and moral obligation of the state to replenish the bank's DSR into our analysis. We have allowed for a higher recovery of defaulted revenues due to the presence of a moral obligation to replenish the DSR fund to the required level.

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 \$130.9 million (at cost, including the additional deposit related to the series 2023B 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, 68% 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

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