Research Update:

Maine Municipal Bond Bank Series 2026A Highway And Bridge Bonds Rated 'AA'; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA' rating to the Maine Municipal Bond Bank's (MMBB) pro forma $190 million series 2026A transportation infrastructure revenue bonds (TransCap program–highway and bridge [HWB] bonds).
- At the same time, we assigned our 'AA-' rating to MMBB's $60 million series 2026A general transportation project (GTP) bonds.
- The outlook is stable.

Rationale

Security

Both series of bonds are special, limited obligations of the MMBB, secured under a general resolution by pledged revenues deposited to the TransCap Trust Fund (TransCap fund), which includes motor fuel tax revenue and auto-related sales tax revenue. The HWB bonds are secured by 100% of motor fuel taxes plus 50% of auto-related sales taxes deposited to the TransCap fund while the GTP bonds are only secured by the other 50% of auto-related sales taxes.

Specifically, the pledged revenues in the TransCap fund consist of the following:

- 10.25% of total revenues from taxes on gas and other special fuels;
- 22.0% of the 40.0% of the 5.5% sales tax collected on the sales of motor vehicles, parts and equipment, and services transferred to the highway fund (or 8.8% of the total tax).

The 2026A HWB bonds are being issued to finance highway and bridge infrastructure projects and the GTP bonds will finance certain transportation projects of all modes. Post-issuance, the $190 million HWB bonds and $60 million GTP bonds will be MMBB's only transportation infrastructure revenue bonds outstanding. The series 2021A bonds under the old resolution have been defeased with funds deposited to the trustee, which will provide for all future debt service payments on the defeased bonds at their maturities through September 2026.

We rate the bonds under our priority-lien tax revenue debt criteria (Oct. 22, 2018), which factor in both the strength and stability of the pledged revenues, as well as the general credit quality of the municipality where taxes are distributed and/or collected (the obligor's creditworthiness or OC). The priority-lien rating for the transportation infrastructure revenue bonds is tied to the OC for the State of Maine.

Credit highlights

The rating reflects our expectation that coverage on the HWB and GTP bonds will remain strong, slightly above the 2x additional bonds test (ABT) covenant, in the near term due to historically stable pledged revenue trends, a diverse state economy and stable population base upon which the pledged revenues are derived, and no additional debt plans.

We view the HWB bonds as exhibiting low volatility, benefiting from a diverse revenue stream comprised of pledged revenues from both motor fuel tax and auto-related sales tax revenues. Starting in fiscal 2024, the statutory transfer of motor fuel excise-tax receipts was increased to 10.25% from 7.50% to the TransCap fund, which we believe demonstrates the state's timely adjustment to raise existing pledged revenues to support capital improvements to its transportation system. In contrast, our moderate-to-low volatility assessment of auto-related sales taxes securing the GTP bonds reflects our view of these pledged revenues to be a narrower and economically sensitive revenue stream compared to a broader sales and use tax and the more diversified mix of revenues securing HWB bonds. This difference in pledged revenue volatility is the key driver behind our one-notch rating differential between HWB and GTP bonds.

The rating further reflects our view of the following:

- Strong maximum annual debt service (MADS) coverage for both the HWB and GTP bonds at 2.1x and 2.3x, respectfully, based on fiscal 2026 estimated pledged revenues;
- A diverse economy, with a population of 1.4 million in Maine (AA/Stable); and
- Good legal covenants, including a 2x ABT, statutory limits on the total bond program size, a mandated maximum final maturity of 15 years on all bonds, and a debt service reserve fund (DSRF) requirement of MADS on the GTP bonds (HWB bonds do not have a DSRF).

In our opinion, these strengths are somewhat offset by the susceptibility of the pledged revenue sources to economic conditions.

Environmental, social, and governance

We believe the state's demographic profile somewhat exposes the pledged revenues to social risk over time but has more influence on the linked obligor's creditworthiness of the state. Maine is among the oldest populations in the nation with an age dependency of 68.2 and more than one-fifth of its population is 65 or older. In our opinion, older-aged states reliant on older- and higher-income households are more likely to experience revenue declines due, in part, to changes in economic activity levels supporting the pledged revenue base. We view mitigants, including state agencies' active planning and policy framework related to addressing the needs of an aging population and an increase in Maine's population over the past five years, the result of improved net domestic and international inmigration, as helping to alleviate additional pressure within our credit rating analysis. Environmental and governance factors do not have a material influence on our analysis for the pledged revenues, consistent with our view for the state.

Outlook

The outlook reflects our view that expected strong revenue performance and lack of additional debt plans will continue to support strong coverage consistent with the 2x ABT convenant.

Downside scenario

We could lower the rating on the HWB and GTP bonds if pledged revenues materially weaken, and MADS coverage falls below the 2x ABT target.

Upside scenario

We could raise the rating on the HWB and GTP bonds if pledged revenues significantly improve resulting in very strong MADS coverage that we expect will be maintained well above 2x ABT. We could also raise the rating on the GTP bonds if auto-related sales tax revenues demonstrate a track record of stable revenue performance through different economic cycles, improving our view of revenue volatility.

Credit Opinion

Economic fundamentals: Very strong

We view the state economy as relatively diverse, with a population of 1.4 million, but we expect Maine’s economic profile will remain somewhat stagnant in the near term, similar to the slower economic growth that is expected nationally, fueled by shifting federal policy changes and weaker population growth. We believe Maine's economic momentum could be limited as the existing workforce ages, housing accessibility challenges remain, and tight labor market conditions weigh on long-term growth. This underscores some of the risks for the state to attract and retain qualified workers to achieve stronger economic performance.

S&P Global Market Intelligence forecasts slowing population growth rates and a modest contraction in Maine's prime working-age population over the next 10 years as more residents reach retirement age. In our view, an aging population could affect state economic output as the percentage of the working-age population decreases. The state has undertaken considerable planning to address its aging population and has budgeted additional resources to increase its affordable housing supply to attract younger-age cohorts. The state's housing production needs study identifies that housing production that is needed to meet both historical underproduction (about 38,500 housing units) and future needs (about 37,900-45,800 units) will likely require additional infrastructure and financial support to close the gap in future years.

Although gross state product (GSP) contributions from professional and business services and education and health service sectors are above the U.S. level, we have generally viewed these sectors to be stable overall through cycles. The state's composition exhibits limited concentration, and employment sectors are generally in line with the nation. Financial activities contribute the largest share of the state's economic output, at 23% of overall GSP, while its highest employment concentration is in education, health care, and social services, at 20% of employment, given Maine's aging population and increased demand in its health services sector.

HWB bond revenue volatility: Low

Motor fuel taxes and 50% of auto-related sales taxes make up approximately 66% and 34% of total pledged revenues for the HWB bonds, respectively, based on fiscal 2026 estimated revenue collections. With motor fuel taxes making up most of total revenues, we consider revenue

volatility to be low, supported by additional revenue diversity from the pledge of auto-related sales tax revenues.

Maine levies a 30-cent-per-gallon motor fuel tax on gasoline, which we believe is in line with the national average. The state's motor fuel tax rates were indexed annually for inflation from July 1, 2003, to July 1, 2011, but the indexing law was repealed on Jan. 1, 2012, resulting in what we view as flat revenue trends. Based on our recent commentary, most state's motor fuel taxes are charged on a fixed per-gallon basis rather than as a percentage of sales price, which tends to reduce revenue fluctuation since the volume of fuel sold has been more stable than fuel prices. However, 26 states have variable-rate gas taxes, that change to some degree with inflation or prices, without regular legislative action, which we believe can help promote revenue growth over time depending on the factors that drive the index. For more information, see "U.S. Highway User Tax Bond Report Card: Favorable Gas Tax Trends Provide Stability Despite Longer-Term Funding Shifts," Oct. 27, 2025.

Starting in fiscal 2024, the statutory transfer of motor fuel excise tax receipts was increased to 10.25% from 7.50% to the TransCap fund. Pledged motor fuel tax revenue for fiscal 2025 was estimated at $25.2 million, up 2.3% from $24.7 million in fiscal 2024. Pledged revenues have been historically stable prior to the pandemic, with an average growth rate of 1% from 2013-2019 and fell roughly 9% from 2019-2021 before revenues began to rebound in 2022.

On a macro level, we consider gas tax revenues to have a low historical volatility assessment given the critical nature of gasoline for automobiles and other transportation. Nationwide, gasoline sales have historically fluctuated less than total consumption of goods and services, even through severe economic downturns and price fluctuations, given the relative inelasticity of demand for motor fuel. We do not expect oil price variations in the medium term will affect our view of the volatility of gas tax revenue in aggregate, but affordable electric substitutes to gas-powered vehicles could cause a shift in market dynamics in the long term.

GTP bond revenue volatility: Moderate to low

We consider the stand-alone pledge of auto-related sales tax revenues to be moderate to low as it is narrower than a broader sales tax pledge, which could make it more susceptible to economic cycles.

The auto-related sales tax consists of a 5.5% tax collected by automobile dealers and by the Bureau of Motor Vehicles within the state on sales of motor vehicles, parts and equipment, and services. Starting in fiscal year 2024, the state controller is obligated to transfer 40% of the auto-related sales tax revenues, after applicable deductions for state municipal revenue sharing, to the highway fund. As of fiscal 2026, the TransCap fund is obligated to receive 22% of the tax revenue deposited into the highway fund. Estimated pledged auto-related sales tax revenues to be transferred to the TransCap fund in fiscal 2026 is approximately $26.1 million. The HWB and GTP bonds split these pledged revenues 50/50.

Coverage and liquidity: Strong

Fiscal 2026 projected pledged revenue for the HWB and GTP bonds is $38.0 million ($24.9 million motor fuel tax and $13.0 million auto-related sales tax) and $13.0 million providing MADS coverage of 2.1x and 2.3x, respectively, which we consider strong.

The resolution provides for an ABT requirement that projected pledged revenues for the current fiscal year cover MADS by 2x, which we consider strong. We understand that management has no plans to issue additional debt under the new resolution.

Maine's constitution restricts the use of motor fuel tax revenues pledged to the bonds and prohibits them from being diverted, which we view as a credit strength. Allowable expenditures are limited to certain expenses that support public highways and bridges, including debt payments, construction costs, and maintenance costs, among others.

While the HWB bonds do not have a DSRF, the GTP bonds do benefit from a DSRF to be funded at MADS. Draws on the DSRF would be replenished by the GTP bond pledged revenues and amounts on deposit within the GTP revenue account. The Maine Department of Transportation might also submit a request to the Bureau of Budget for additional revenues to ensure sufficiency of the pledged revenues.

Obligor linkage: Close

We view the transportation infrastructure bonds as linked to Maine's creditworthiness. In our view, the collection and distribution of pledged revenues by the state itself exposes the revenues to operating risk. For this reason, under our priority-lien criteria, we consider the linkage between the priority-lien pledge and Maine to be close.

Pledged revenues are a fixed allocation and are not subject to biennial appropriation by the state legislature. However, if pledged revenues are insufficient to cover debt service, the Maine Department of Transportation could request to the Bureau of Budget in the State Supplemental or Biennial Budget for adjustments to the amount of motor fuel or auto-related sales tax revenues to be transferred to the TransCap fund to ensure sufficiency of pledged revenues. After debt service payments, residual fund balances are deposited into the general fund accounts, which are available to pay debt service if needed.

Maine Municipal Bond Bank (TransCap Program)--key credit metrics

	GTP bonds	HWB bonds
	Metric	Metric
Economic data		
Economy	Very strong	Very strong
EBI level per capita % of U.S.	98	98
Statewide revenue base	Yes	Yes
Population (obligor)	1,393,986	1,393,986
Population (MSA)	Not applicable	Not applicable
Financial data		
Revenue volatility	Moderate to low	Low
Coverage and liquidity	Strong	Strong
Baseline coverage assessment	ABT	ABT
MADS coverage (x)	2.29	2.11
MADS year	2027	2028
Bond provisions		
ABT (x)	2.00	2.00
ABT type	MADS	MADS
ABT period	Projected	Projected
DSRF type	MADS	None
Obligor relationship		
Obligor linkage	Close	Close

Maine Municipal Bond Bank (TransCap Program)--key credit metrics

	GTP bonds	HWB bonds
PL rating limit (number of notches above OC)		

Ratings List	
New Issue Ratings	
US$190.0 mil transp infrastructure rev bnds (Transcap Prog-hwy & Br Bnds) ser 2026A due 09/01/2041	
Long Term Rating	AA/Stable
US$60.0 mil transp infrastructure rev bnds (Taxable) (Transcap Prog-gen Transp Proj Bnds) ser 2026A due 09/01/2041	
Long Term Rating	AA-/Stable
New Rating	
Local Government	
Maine Municipal Bond Bank, ME General Transportation Project Funds	AA-/Stable
Maine Municipal Bond Bank, ME Highway and Bridge Project Funds	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.