CREDIT OPINION
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Maine Municipal Bond Bank

Update to credit analysis

Summary

Maine Municipal Bond Bank (Aa1 stable) benefits from the average credit quality of the underlying pool participants that are enhanced by the Maine State Aid Intercept Program (Aa3 stable), a large and diverse portfolio of participants, overfunded reserves and State of Maine's (Aa1 stable) commitment to replenish draws on the debt serice reserve fund. The bond bank's rating incorporates the strong management of the bank that includes a five-member board with the State of Maine's Treasurer as an ex-officio commissioner.

Credit strengths

» Active program management and surveillance of all pool participants

» Significant state involvement, including the pledge of the state's moral obligation

» Healthy reserve position

» Large and diverse pool of participants

Credit challenges

» Oversight and ongoing credit review of all program participants

Rating outlook

The stable outlook reflects our stable outlook on the State of Maine as well as our expectation that strong management will continue to soundly manage operations and participant monitoring.

Factors that could lead to an upgrade

» Significant improvement in credit quality of the participant pool

» Improvement in the State of Maine's credit profile

» Improvement in the state aid intercept rating

Factors that could lead to a downgrade

» Deterioration of the size, diversity, or credit quality of the participant pool

» Material reduction in discretionary reserves

» Deterioration of the State of Maine's credit profile

Key indicators

Maine Municipal Bond Bank	
Size and Diversity	
Size of portfolio (# of borrowers)	259
% of borrowers with less than 1% of the pool	36.4%
% of loans to the top 5 borrowers	29.9%
Amount Outstanding	
Total bonds outstanding ($ millions)	$1,025
List of Top 5 Participants	Percent of Pool
Sanford (City of)	10.4%
RSU #10	5.5%
MSAD #54	5.5%
MSAD #75	4.8%
RSU #19	3.8%

Source: Moody's Ratings and issuer's audited financial statements

Profile

The Maine Municipal Bond Bank was created in 1973 and is authorized to issue bonds in order to provide loans to counties, cities, towns, school districts, and quasi-municipal corporations located within the state of Maine.

Detailed credit considerations

Credit Quality and Default Tolerance: Credit quality of large and diverse participant pool is primary rating driver

The size and diversity of the $1 billion loan portfolio, together with the average credit quality (meaning generally in the Aa range) of the 259 individual borrowers and timely repayment history over 50 years, provide strong security to bondholders. The majority of borrowers currently do not have underlying ratings from Moody's given that their sole debt offerings are through the bond bank. However, Moody's has completed an internal credit assessment of the bank's other borrowers that conservatively indicates that 100% of loan principal is of investment grade credit quality. Diversity in the pool is evidenced by the fact that the top five borrowers account for a reasonable 30% of total loan principal. The largest borrower is the City of Sanford at 10.4%, and the second largest borrower is Regional School Unit 10, representing 5.5%.

Finances: Reserves provide high degree of additional security

The bond bank's multiple reserve funds provide a high degree of additional security if a borrower makes a late payment or defaults on a loan payment. The Debt Service Reserve Fund, established by the original resolution and funded with bond proceeds, must equal at least maximum annual debt service (MADS) on outstanding bonds issued to fund governmental units' loans. Post-issuance, MADS is projected to be $145 million with the debt service reserve funded at $155.4 million as of March 2024. 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 may occur in this fund. In addition, as of December 31, 2023, the bank has a Supplemental Reserve Fund of $23.7 million pledged to debt service. The bank also has a Special Discretionary Reserve Fund not restricted as to use, which has a balance of $10.5 million as of December 31, 2023, and is available for repayment of debt as the bank has given its general obligation pledge.[1] Total reserves available for repayment of debt are projected to cover MADS by a minimum of 1.31 times.

Debt Structure: Very strong legal covenants, state moral obligation and intercept provision provide additional credit enhancement

The bond bank's outstanding bonds are secured by, and have historically been paid with, loan repayment revenues received from the participating local governmental units, comprising the bank's long-established and extensive portfolio. The loans contain strong security pledges, with about 87% secured by the local government's general obligation pledge. The remaining loans generally carry net revenue pledges backed by the statutory pledge of property taxes by the underlying units if enterprise revenues are insufficient. In addition, the full faith and credit of the bank, including its substantial reserves, are pledged towards bond repayment. The bond bank has been in operation since 1973 and no borrower has defaulted on its obligations.

Under the Bond Bank act, the state treasurer is empowered to intercept funds due to any local unit that is in default of its bond bank debt and redirect them to the bank. The effectiveness of this provision is tied to the amount of debt held by the city or town and the amount of money the State has for the city or town. However, school systems derive a greater proportion of their operating revenues from state aid (sometimes up to 50%), all of which is subject to the intercept provision. The intercept mechanics provide another method for reserves to be replenished should they be drawn upon. The treasurer has never been called upon to exercise this authority.

The bank has a five-member Board of Directors that includes the Maine State Treasurer as an ex-officio commissioner, and the bank also benefits from a strong and experienced management team. The bank's well-established monitoring and payment collection procedures and professional administration further enhance security. Bond bank officials, pending a review of the borrowers' finances, structure debt service to correspond to the individual borrowers' desired repayment schedules, subject to modification. The bank continues to annually monitor the audited financial statements of all active borrowers to ensure their continued ability to meet their obligations.

As of 2011, new borrowers' loan payments are due 30 days before the debt service payment date, an improvement over the previous five day deadline. Officials report that 71% of loans are currently required to be paid 30 days prior to the debt service payment date.

Legal security

The bonds are general obligations of the MMBB, and the full faith and credit pledge of the bank are pledged for the payment of debt service. The bonds are also secured by the State of Maine's moral obligation pledge to replenish a draw on the debt service reserve fund in the event of a loan repayment deficiency.

Endnotes

1 **Note: Of the $10.5 million Special Discretionary Reserve Fund balance, currently $7.5 million is pledged to the Maine Connectivity Authority in the form of a standby letter of credit to satisfy a National Telecommunications and Information Administration federal grant condition.**

MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Maine Municipal Bond Bank GOs rating to Aa1; outlook is stable

20 May 2024

New York, May 20, 2024 -- Moody's Ratings (Moody's) has upgraded the outstanding general obligation debt of the Maine Municipal Bond Bank to Aa1 from Aa2. The outlook has consequently been revised to stable from positive.

The upgrade reflects Moody's upgrade of the State of Maine to Aa1 on May 15, 2024.

RATINGS RATIONALE

The Aa1 rating reflects the average credit quality of the underlying pool participants that are enhanced by the Maine State Aid Intercept Program (Aa3 stable), a large and diverse portfolio of participants, moderate debt structure with overfunded reserves and the State of Maine's moral obligation pledge to replenish draws on the debt service reserve fund. The rating also incorporates the strong management of the bank that includes a five-member board with the State of Maine's (Aa1 stable) Treasurer as an ex-officio director.

RATING OUTLOOK

The stable outlook reflects our view that strong management will continue to soundly manage operations and participant monitoring.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant improvement in credit quality of the participant pool

- Improvement in the State of Maine's general obligation rating

- Improvement in the state aid intercept rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Deterioration of the size, diversity, or credit quality of the participant pool

- Material reduction in discretionary reserves

LEGAL SECURITY

The bonds are general obligations of the bond bank, and the full faith and credit pledge of the bank are pledged for the payment of debt service. The bonds are also secured by the State of Maine's moral obligation pledge to replenish a draw on the debt service reserve fund (DSRF) in the event of a loan repayment deficiency.

USE OF PROCEEDS

Not applicable.

PROFILE

The Maine Municipal Bond Bank was created in 1973 and is authorized to issue bonds in order to provide loans to counties, cities, towns, school districts, and quasi-municipal corporations located within the state of Maine.

METHODOLOGY

The principal methodology used in these ratings was Public Sector Pool Programs and Financings Methodology published in April 2020 and available at https://ratings.moodys.com/rmc-documents/66017 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case