S&P Global
Ratings

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Summary:

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

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Table Of Contents

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Credit Profile		
US$36.366 mil st revolving fd bnds ser 2024 C due 11/01/2054		
Long Term Rating	AA+/Stable	New
US$35.153 mil st revolving fd bnds ser 2024 B due 11/01/2054		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Maine Municipal Bond Bank's $69.520 million series 2024B and 2024C bonds.
- At the same time, S&P Global Ratings affirmed its 'AA+' rating on the bank's general resolution bonds outstanding.
- The outlook is stable.

Security

The bank will use the 2024B bond proceeds to make loans to 15 municipalities and the 2024C bond proceeds to refund certain outstanding bonds. The 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 bank's bonds.

Credit overview

The bank's program benefits from a state aid intercept mechanism and a moral obligation of the state to replenish the debt service reserve (DSR) to the required level if it ever falls below this point. In addition, the program has a supplemental reserve fund and a special discretionary reserve fund that can be used to pay debt service.

The rating reflects our view of the program's:

- Very strong enterprise risk profile, providing public and essential governmental functions to the State of Maine, created under state statute. The program has explicit statutory support from the state government to support debt service if needed, and was also established by statute;
- Overcollateralization in the form of three reserve funds that is capable of withstanding S&P Global Ratings' loss coverage scenario, based on the credit quality of the asset pool and consolidated cash flows, run at the 'AAA' category loss stress;
- Long track record of no defaults or delinquencies among previous and current borrowers in the bank's program; and
- Overall strong financial policies and practices.

Offsetting these strengths is the lack of significant equity support from multiple levels of government, as some other pool programs receive. We view this characteristic as marginally weaker than that of other programs that have substantially all program reserves funded through equity contributions that are not needed to make debt service payments.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that management will adhere to its current policies and practices, and the bank will sustain extremely strong operating performance and continue to make loans to a diverse base of borrowers throughout Maine. As additional bonds are issued, we also expect the bank will preserve its historical practice of increasing the bond-funded DSR fund balance and maintain at least some other equity positions in its other nonbond-funded reserve funds consistent with the program's permitted investment securities.

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 fall or 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 supporting 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 probably 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 profile: Very strong

Our enterprise risk profile assessment reflects the low industry risk profile for municipal pools and the programs' market position, which we 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 bond bank plays an important role in providing cost-effective financing for local governments, and we believe challenges to program demand are unlikely.

Financial risk profile: Extremely strong

We assess the program's loss coverage score as extremely strong, based on our view of overcollateralization achieved from the multiple reserve funds in relation to required debt service payments and the diverse borrower composition.

The program's level of overcollateralization reflects the ability of the cash flows to withstand our 'AAA' credit loss coverage. The program also covers our 'AAA' rated largest obligor loss coverage.

After the 2024B and 2024C issuances, the pool will have approximately $1.2 billion of loan principal repayments from a diverse pool of 265 unique borrowers, with approximately $1.2 billion of bonds outstanding. The majority of the borrowers consist of municipalities and school districts. A large portion of the 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 subsidies are paid directly to the 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 2024B and 2024C bonds close, the top 10 borrowers will total less than 50% of the portfolio, with the City of Sanford remaining the largest borrower (10.1% of the loan portfolio outstanding).

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; however, there is no legal requirement to do so, as those funds are not pledged under the resolution.

Recently, the bank pledged to Maine Connectivity Authority approximately $7.5 million in the form of a standby letter of credit (LOC) in order for the authority to participate in a federal grant program. The LOC will amortize as the funds are disbursed (fully amortized in approximately three years) and can only be drawn on if the authority cannot make payments. We have incorporated this pledge into our cash flow analysis.

Management states that annual debt service coverage from pledged loan repayments, interest earnings on investments, and planned annual maturities of reserve fund investments is 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. The current DSR valuation of $157.46 million (at cost) 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.

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 at 95% due to the presence of a moral obligation to replenish the DSR to the required level.

We view the operating performance as extremely strong, as the program has had no defaulted loans or loans delinquent more than five days in its history.

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. Currently, more than 70% 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.

Credit Snapshot

- Program description: The bond bank, established in 1973 by state statute, provides loans to a variety of governmental units in Maine. It is authorized to issue bonds to make loans to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations in the state.
- Flow of funds: Loan revenues and other funds from the bank are held in the reserve fund (solely to the payment of the interest on and principal of the bonds as they become due and payable and for the retirement of bonds all series for the resolution are paid in parity). Money may not be withdrawn if it reduces the amount in the reserve fund to an amount less than the required DSR, except for payment of interest then due and payable on bonds and the principal of bonds then maturing and payable and for the retirement of bonds in accordance with the terms of any contract between the bank and its bondholders and for which payments other money of the bank are not then available.
- Summary statistics: With the 2024B and 2024C issuances, total principal loan revenue pledged to the resolution will be $1.2 billion. The borrower portfolio consists of 265 separate entities of which the largest is the City of Sanford, with $121.3 million outstanding, constituting 10.1 % of all loans outstanding. The top 10 obligors hold 46.34% of all loans outstanding; no other borrower represents more than 7% of principal outstanding).

Related Research

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

Ratings Detail (As Of September 23, 2024)		
Maine Mun Bnd Bank SRF		
Long Term Rating	AA+/Stable	Affirmed
Maine Mun Bnd Bank MORALOBLIG		
Long Term Rating	AA+/Stable	Affirmed