Government Finance Associates, Inc.

590 Madison Avenue, 21st Floor
New York, New York 10022
(212) 521-4090/4091
Fax (212) 521-4092

CAPITAL DEBT AFFORDABILITY ADVISORY COMMITTEE

State of

Vermont

RECOMMENDED ANNUAL GENERAL OBLIGATION DEBT AUTHORIZATION

September 2008

TABLE OF CONTENTS

INTRODUCTION

We are pleased to present this report to the Capital Debt Affordability Advisory Committee of the State of Vermont (the "Committee" or "CDAAC"). This analysis is intended to assist the Committee in determining the maximum amount of long-term, net tax-supported debt, which currently consists of only general obligation debt ("G.O. debt") that the State should authorize for the upcoming fiscal year (ending June 30, 2010). In addition, however, the 2008 legislative session required that CDAAC provide an estimate (to be provided by Oct. 1, 2008) of the amount of additional long-term net tax supported debt, in addition to the $54,650,000 that had been recommended by CDAAC for fiscal 2009, that prudently may be authorized for transportation purposes. The 2008 legislature also authorized for fiscal 2009 the issuance of general obligation bonds for transportation purposes up to $10,000,000 as long as such amount does not exceed the CDAAC recommendation for fiscal 2009 to be provided on Oct. 1, 2008. In addition, the 2008 legislative session required that CDAAC, for its fiscal 2010 recommendation, take into account, for transportation purposes, the same considerations that went into the revised CDAAC 2009 recommendation.

The Committee's enabling legislation requires the Committee to present to the Governor and the General Assembly each year, no later than September 30, a recommendation as to the maximum amount of net tax-supported debt the State should authorize for the forthcoming fiscal year, consistent with certain guidelines enumerated in the statute. Since the only net tax-supported debt that the State has outstanding is general obligation debt, most of this report will refer to the State general obligation bonds generically as Vermont's net tax-supported indebtedness. There were a series of significant changes, described herein, made to the enabling legislation during the 2008 legislative session, and those adjustments are included herein. This report provides the supporting analysis and documentation necessary for the Committee to comply with the legislative requirements. As required by the enabling legislation, this analysis extends through fiscal year 2019.

In fiscal year 2008, a total of $75.2 million of G.O. debt was issued (representing $46 million from the $49.2 million authorization for fiscal year 2008, plus $29.2 million to refund portions of the State's Series 1998A and 1998C General Obligation Bonds) while $46.6 million of G.O. debt was retired. It is expected that during fiscal year 2009, a total of $64.65 million of general obligation bonds will be issued, representing the full amount of the year's authorization, $54.65 million, plus an additional $10 million for transportation purposes (as more fully described below). It should be noted that there is an additional capacity for State issuances in 2010 and thereafter, as shown in an attached table. For various reasons set forth herein, CDAAC is proposing an authorization of general obligation debt in fiscal 2010 of $69,955,000. The reasons for CDAAC's recommendations for fiscal years 2009 and 2010 are set forth below under "Reasons for the Adjusted Fiscal 2009 Recommended Debt Authorization and for the Fiscal 2010 Recommended Debt Authorization."

Recommended Maximum Annual Par Amounts of G.O. Debt
To be Issued During Fiscal Years 2009 Through 2019.

FY	G.O. Debt	Transportation	Additional G.O. Debt	Total
2009	54,650,000	10,000,000		64,650,000
2010	54,650,000	10,000,000	5,305,000	69,955,000
2011	54,650,000	0	15,305,000	69,955,000
2012	54,650,000	0	15,305,000	69,955,000
2013	54,650,000	0	15,305,000	69,955,000
2014	54,650,000	0	15,305,000	69,955,000
2015	54,650,000	0	15,305,000	69,955,000
2016	54,650,000	0	15,305,000	69,955,000
2017	54,650,000	0	15,305,000	69,955,000
2018	54,650,000	0	15,305,000	69,955,000
2019	54,650,000	0	15,305,000	69,955,000
	601,150,000	20,000,000	143,050,000	764,200,000

Note: All G.O. debt is retired over a 20-year period, while the transportation debt is retired over a 10-year period, both assuming equal annual principal amortizations.

Recent Legislative Actions Impacting CDAAC's Participation in State Debt Management Operations

Since the early 1990s, pursuant to its enabling legislation, CDAAC has played an integral role in the State's debt management and credit posture through its annual recommendations of appropriate levels of general obligation debt to be authorized by the State of Vermont. Its work has been repeatedly cited in written and oral communication from the nationally recognized rating agencies as important to the investment grade ratings applied to the State's general obligation debt. During the most recent legislative session, there were numerous initiatives that impact CDAAC's participation in the State's debt management operations. It has already been described that the fiscal 2009 CDAAC recommendation must be re-evaluated, taking into account the possibility of the State issuing an additional amount of general obligation bonds in fiscal 2009 for various transportation purposes. In addition, CDAAC was asked to review the effect of the State issuing additional general obligation bonds for transportation purposes in 2010, taking into account the considerations applied for 2009; unlike other State general obligation debt that is normally amortized over a twenty-year period, this new transportation debt is expected to be repaid over ten years, and that maturity repayment structure has been applied to transportation debt in 2009 and 2010, but otherwise, debt is assumed to be retired over twenty years. Third, there was considerable expansion of the State's moral obligation commitments to borrowers; while this action does not bear on the specific annual recommendation that CDAAC makes, considering the growth of contingency debt that the moral obligation commitments represent, then CDAAC has to take these actions into account as it views the State's debt affordability position in the future. Fourth, there were several legislative actions that affect the composition of CDAAC, including the expansion of CDAAC's membership, the adjustment of the State Auditor of Account's role from voting member to non-voting status, among others. CDAAC also is now asked to consider certain other factors in its recommendations, such as the impact of capital spending upon the economic conditions and outlook for the State, the cost-benefit of various levels of debt financing, types of debt and maturity schedules, and any projections of capital needs authorized or prepared by the Agency of Transportation, the Joint Fiscal office or other agencies or departments. Finally, while not directly related to CDAAC activities, the State Treasurer was directed to prepare, in conjunction with the Agency of Transportation and the Joint Fiscal Office, with participation by one or more investment banks, a long-term needs assessment for repair, maintenance, and rehabilitation of bridges and culverts in the State and provide funding options and recommendations for such long-term needs; the results of this study could impact the work and recommendations that the CDAAC may provide in future years.

Frozen Credit Markets Negatively Impact State Funding

Over the last three weeks, beginning around the second week of September, the tax-exempt bond market, consistent with the conditions of and performance in other fixed rate markets, began to seize up with virtually no buyers for new bond issues. At this point, it is not possible to predict when and if the tax-exempt bond market will begin to thaw in such a way that will allow the State of Vermont to sell its 2009 authorized general obligation bonds in the amount that is anticipated in this document and in the CDAAC recommendation. If the tax-exempt bond market remains frozen for an appreciable period of time, the State may, at a minimum, need to delay its sale, which is currently anticipated for the November-December, 2008 time frame, and at worst, may not be able to secure borrowed funds for the current fiscal year, requiring the State to review its capital budget program when the legislature reconvenes in January, 2009.

Background on Vermont's Recent Historical Debt Policies

The Vermont State Treasurer's Office prepared the following recital of the State's recent historical debt policies for CDAAC. This important information, slightly revised to conform with the balance of this report, is supplied as further background material relevant for a better understanding of the State's current debt position:

"In the early 1970s, Vermont lost its triple-A bond rating, largely because of a significant accumulation of bonded indebtedness. There were three principal causes for the increase in outstanding debt . . . interstate highway construction, extensive school construction and renovation, and sewage treatment plant construction. Another factor that may have concerned analysts at that time was the extension of moral obligation support for industrial mortgage guarantees, the Bond Bank, and VHFA.

"In 1975, Vermont enacted in statute the so-called "90 percent rule" as a policy device to reduce its large amount of accumulated tax-supported debt. New general obligation debt authorization was restricted to 90 percent of the debt being retired in the same fiscal year. The policy was successful. The ratio of debt as a percent of personal income, a key benchmark for rating analysts, was reduced from about 11% in the mid-1970s to about 3% in 1989. Clearly, though, the 90 percent rule policy was not sustainable and policymakers recognized it would eventually lead to unrealistically small amounts of allowable new debt.

"In 1990, the "90 percent rule" was repealed, and the Capital Debt Affordability Advisory Committee was created to provide a new framework for determining the appropriate level of new debt issuance for the State. Interestingly, in 1991, the CDAAC recommended issuance of $100 million of new debt based on pent-up demand for infrastructure funding, the need to stimulate the economy with job creation, and attractive interest rates. Perhaps coincidentally, Vermont's bond rating was reduced from AA to AA- by Standard & Poor's in 1991. Since that time, CDAAC and Vermont policymakers have faithfully worked to improve the State's debt profile by being conservative in new debt issuance, utilizing cash from one-time surplus funds to supplement bonding for infrastructure financing, and expanding the State's economic base." As a supplementary comment, in addition to other economic reasons that CDAAC recommended a particularly large amount of debt in 1991, the cost of construction at the time was especially favorable to the State.

CDAAC's Affordability Guidelines and Debt Load Standing Among States

Since 2004, the Committee has followed a series of new debt guidelines, reflecting the State's comparative current and prospective performance in terms of debt load measures (i.e., debt per capita and debt as a percent of personal income) against triple-A rated states. A more detailed discussion of these guidelines and the State's compliance with them are presented later.

According to Moody's Investors Service's most recent information, the State's relative position, among states, improved during the past year with respect to both net tax-supported debt as a percent of personal income (improving from 30th in 2007 to 33rd in 2008) and net tax-supported debt per capita (improving from 28th in 2007 to 32nd in 2008). Standard & Poor's Corporation also has recently published similar information; however, it is a relatively new publication, and its computations are not consistent with the approaches that are generally taken toward debt burden, as utilized by Moody's, Fitch, and the State of Vermont. For example, the results of the Standard & Poor's evaluation of debt per capita and debt as a percentage of personal income shows our ranking in the mid 20s among all states, well below (meaning worse) the levels that Moody's has established for Vermont.

Moody's Triple-A Rating

The State of Vermont achieved a very significant milestone in February 2007 when it was raised to the coveted triple-A category by Moody's Investors Service. Not since the early 1970s has Vermont been rated Aaa by Moody's. There are cost of capital and economic development reasons, among others, that the triple-A rating is a very worthy goal to be achieved. Among the reasons Moody's cited for the increased rating was the State's "steady progress in reducing previously high debt ratios and maintaining an affordable debt profile." Based on numerous communications with Moody's, it has also become clear that the role of CDAAC and the credibility that CDAAC has brought to the debt authorization process were factors in the rating agency's decision to take this important move. Over time, we expect that Fitch and Standard & Poor's will duplicate Moody's action and increase the State's rating to triple-A. The State's adherence to the debt guidelines will improve the prospects for that eventuality.

Moody's Credit Scorecard

In August 2008, Moody's Investors Service issued its annual report entitled, "U.S. States Credit Scorecard." This report has been included as an appendix to this document. It is being included for the reason that Moody's has identified the scorecard "as an additional analytic tool to enhance the consistency of our state general obligation (G.O.) credit analysis." As part of the Moody's report, the rating agency places each of the 50 states within one of five tiers for the four major rating categories germane to a Moody's rating: finance, economy, debt, and governance.

For 2006, 2007 and 2008 Moody's overall scorecard state rankings placed Vermont in the first tier. For the most recent scorecard, Vermont retained its first tier position in the debt category and its second tier position in both the economic and governance categories. The State's placement in the finance category for 2008, however, was lowered from the second to the third tier. It is our understanding that for the governance factor, the State was improved in 2007 to the second tier from its 2006 position largely as a result of the advances the State has made in recent years in financial reporting. At the same time, Moody's indicated that the decline in the State's financial ranking is due principally to a lower revenue growth over the 2003-2007 time period than for certain other states. Apparently, the 2007 decrease in the economy ranking to the second tier from its 2006 position in the first tier occurred from Vermont's job and income growth being at a slower pace than for the nation as a whole.

In terms of a general explanation, Moody's has stated that even though there was a deterioration for the State in the scorecard in finance during 2007 and 2008, Vermont's general obligation rating was maintained at Aaa. The agency indicates that the scorecard is backward looking, while ratings are forward looking, so that adjustments in tier classification does not have a direct bearing on the State's rating. It is also relevant, according to Moody's, to note that since only ten states fall into each tier, Vermont, as a result of its being toward the end of the alphabet, would be one of the first states to fall from one tier to the next if another state were moved into the same tier in which Vermont appeared.

Legislative and Public Policy Pressures to Increase Ratings

Beginning in calendar 2007 and continuing through calendar 2008, the nationally recognized credit rating agencies have been scrutinized intensely in the public arena. This increased attention has been driven in part by criticism pointed at the agencies as a result of large amounts of poorly performing mortgage obligations that had initially been rated in the top tier categories. In this context of criticism, legislative and public opinion-makers have suggested that the ratings for state and local governments were artificially kept low by the rating agencies in comparison with sovereign and corporate credits. In response to this criticism, the rating agencies have admitted that state and local governments had been rated on a more value based approach, as opposed to the default based approach routinely applied to sovereign and corporate borrowers. Nonetheless, the rating agencies generally have agreed that they will, over time, normalize the ratings among the three types of borrowers, meaning that state and local ratings should rise. This development will probably have two consequential results for borrowers, such as the State of Vermont. For highly rated borrowers, the migration of average ratings to higher classifications may reduce the advantage of better state ratings. At the same time, the likelihood of Vermont being raised into the triple-A category by the remaining two agencies, Fitch and Standard & Poor's, will probably increase over the next three-four years. In addition, it is possible in this scenario for the State to sell more debt and still remain in the triple-A category. Many market participants currently predict that different tiers of marketability for borrowers will probably develop within rating categories as states and other public borrowers see their ratings rise; if this proves true, then it may be necessary for the State to continue to comply with the strongest state peers, which may not create additional debt capacity beyond that which our guidelines provide for the best states within the triple-A classification.

Approach To State Moral Obligation Indebtedness

As the State's rating improves, the value of its moral obligation also grows. It is therefore apparent that there has been greater pressure on the State to raise the size of its existing moral obligation commitments and/or to assign the moral obligation pledges to new State borrowers. In this context, it is relevant for CDAAC to consider a policy approach toward quantifying and limiting the State's exposure to this type of debt. Indeed, without some form of containment, it is possible that an ever-increasing moral obligation debt load could, over time, erode the State's debt position.

In accordance with the appropriate provisions from the enabling statute that created CDAAC, the Committee has already been authorized to consider "any other long-term debt of instrumentalities of the state not secured by the full faith and credit of the state, or for which the state legislature is permitted to replenish reserve funds." Therefore, it is not inconsistent for CDAAC to develop guidelines for Vermont regarding the size and use of the State's moral obligation debt.

In recent years, CDAAC has adjusted its debt load guidelines to take into account the comparative debt load statistics for triple-A rated states throughout the country. Unfortunately, none of the rating agencies prepare comparative data on the respective triple-A rated states on moral obligation or contingent debt. Moreover, there is little consistency among the triple-A rated states regarding the size, nature and role of such debt. The types of contingent debt are quite varied among the states, including state guarantees of local school debt, back-up support for revenue obligations, etc. Because of the mixture of contingent debt applied by triple-A states, it would not be possible to employ guidelines that are similar to the general obligation guidelines that have been utilized by CDAAC in connection with its annual recommendation of long-term general obligation debt to be authorized by the State legislature.

During the 2008 legislative session, there was an expansion of moral obligation debt, illustrated by $100 million of authorization for higher education purposes, divided $66 million for the University of Vermont and $34 million for State Colleges. In addition, the VHFA moral obligation pledge was raised to $155 million, or in an increment of $30 million. Adding these to the outstanding moral obligation commitments by the State to VMBB of $487.7 million, to VEDA of $70 million, and to the Vermont Telecommunications Authority ("VTA") of $40 million, the total amount of moral obligation debt commitments that the State had outstanding at June 30, 2008 were $852.7 million.

There have been discussions within CDAAC for a couple of years regarding the establishment of guidelines for limiting the amount of moral obligation debt that the State should authorize. In an accompanying chart, the State's net tax-supported debt statement, consisting entirely of the State's GO outstanding indebtedness, is presented, as of June 30, 2008, at $438.6 million. Using 225% of GO debt for establishing a limit of moral obligation debt, the State would have had approximately $134.1 million in additional moral obligation capacity. Using 200% of GO debt for establishing a limit of moral obligation debt, the State would have had approximately $24.5 million in additional capacity. It should also be emphasized that the date during the year that these computations occur are crucial to the results. For example, if the computations had been made about a week later, July 8, 2008, after the VMBB, which has no statutory limit on moral obligation commitment from the State, sold an additional $43.57 million in new bonds, then the outstanding moral obligation commitment that the State had outstanding would have been approximately $895.3 million. Therefore, at 225%, there would be $90.5 million in additional capacity available; at 200%, there would ($19.1) million in negative capacity – in other words, at 200%, the State could not comply with the administrative guideline.

At this point, CDAAC believes that a range of 200-225% is appropriate in determining the amount of moral obligation commitments that should be outstanding in comparison to the State's general obligation debt. Since CDAAC is not recommending legislative action to codify any statutory limits on the incurrence of moral obligation debt, CDAAC will continuously monitor the developing size of moral obligation commitments and report the results.

The State has had preliminary discussions with the rating agencies regarding this approach. As a general matter, the agencies are pleased that Vermont is attempting to restrain the potential growth in this area. For example, some states have adversely affected their debt positions by supplying over the years too much moral obligation commitment. At the same time, it does not appear that the rating agencies will give the State an approval of the precise percentage to be employed; indeed, the level of potential exposure will likely have to become a decision that the State will need to make, in consultation with its financial advisor.

State's Triple-A Rating Increases Funding Resources For Vermont Moral Obligation Borrowers

Most state and local borrowers prefer higher investment grade ratings for several obvious reasons: lower borrowing costs for the higher rated general purpose government, lower borrowing costs for authorities that rely on support from the higher rated borrower, and the more indirect economic development advantage of companies being attracted to places that have superior or excellent management, reflected in better investment grade ratings.

One benefit to a triple-A rating to the State that is not immediately obvious is the additional funding resources that become available to moral obligation borrowers. As the investment grade rating of the general purpose government – in this case, the State of Vermont – rises, then the value of the moral obligation pledge also increases. For example, as the State's rating has improved, there has been a growing demand for greater State participation in the form of larger moral obligation commitments. Just since Vermont was rated triple-A in 2007 by Moody's, VTA has received $40 million in moral obligation commitment, UVM has received $66 million in a similar commitment, Vermont State Colleges $34 million in commitment, and VHFA an increase of $30 million in moral obligation pledge. Prior to the Moody's rating improvement, VEDA's moral obligation commitment rose to $70 million. During the time that the State's rating was in the low to mid double-A range in the early to mid 1990s, there was little demand for the State's moral obligation pledge. The application of the State's highly rated moral obligation commitment has therefore expanded the funding resources for many sizeable Vermont borrowers.

Growth In Debt By Other Triple-A States Gives Vermont Additional Long-Term Debt Capacity

As discussed elsewhere, CDAAC altered in 2004 its affordability guidelines to align with debt per capita and debt as a percentage of personal income as experienced by triple-A rated states. In particular, the guidelines called for State compliance with the 5-year mean and median for triple-A rated states with respect to each of these affordability measures. Over most of the intervening period, the State has been able to meet three of the four measures; Vermont was not able to meet the 5-year median debt per capita standard for triple-A rated states. However, as forecasted in the 2007 CDAAC affordability report, it was projected that based upon the then existing trends, the State should be able at the end of fiscal 2008 to comply with all four guidelines. In fact, that is what has happened. The 5-year median of debt per capita for triple-A rated states is $765, while the 5-year median for Vermont is below that figure at $707. As set forth elsewhere in this report, Vermont is able to comply with the other three guidelines by healthy margins.

Over the last five years, excluding Florida prior to 2006 (previously, Florida had not been included among triple-A rated states) and Vermont, the mean for debt per capita among triple-A rated states grew from $823 to $998 in 2008, or by over 21%; during the same period, Vermont's debt per capita actually declined from $724 to $707, or a reduction of 2.4%. With respect to debt as a percentage of personal income, over the last five years, again excluding Florida prior to 2006 and Vermont, the mean for this ratio among triple-A rated states was relatively stable – from 2.7% in 2004 to 2.8% in 2008; during the same period, Vermont's debt as a percentage of personal income fell from 2.5% in 2004 to 2.0% in 2008.

Now that Vermont's debt ratios are below those, on a median and mean basis, of their peers in the triple-A category, the State's debt capacity should allow for some expansion in the near future. It should be emphasized, however, that one of the primary reasons that Vermont currently enjoys a triple-A from Moody's is the State's conservative debt management, as reflected in its tier one status for all states with respect to its debt ranking under the Moody's state scorecard. Further, Moody's has stated in its recent credit reports on Vermont that if the State's debt ratios increase relative to the 50-state debt measures, the State could see its triple-A rating decline.

It will be important for the State to monitor the annual amount of debt service paid from the State's operating funds, consisting of the General and Transportation funds. While the CDAAC guideline is 6%, this level is above the range at which certain rating agencies are comfortable for a triple-A rated state. At present, debt service represents 5% of operating funds – the ratio is one of the more critical debt measures and requires continual review. Moreover, it is possible that CDAAC will adjust the 6% to a lower mark over time.

Results of $10 Million Increase in 2009 General Obligation Debt Authorization for Transportation Projects

As shown later in this report, Vermont is able to add $10 million for transportation purposes to the $54.65 million authorization for fiscal year 2009 and comply with its guidelines, as reflected by the projected 5-year Moody's medians for triple-A states for debt per capita and debt as a percentage of personal income. It should be emphasized that a corresponding analysis, consisting of adding $10 million for transportation purposes to the $54.65 million for the fiscal year 2009 for a total of $64.65 million and at $69.955 million for the fiscal years 2010-2019, illustrates the ability of the State to comply with its guidelines; it should be noted in this context that the new transportation debt will be amortized over ten years, in contrast to State general obligation debt, which is normally repaid over 20 years. With respect to the 2008 5-year Moody's median for debt per capita among triple-A rated states, the number of $765 is increased annually by 2.7% through 2019. However, for the 2008 5-year Moody's median for debt as a percentage of personal income (i.e., 2.5%) among triple-A rated states, the number has not been increased for the period, 2009-2019, since the annual number is quite volatile, ranging from 2.3% to 2.8% over the last five years.

Lease and Contingent Purchase Transactions

The State has recently entered into a lease financing for energy savings in the amount of approximately $4.7 million. It is expected that the guaranteed operating savings from greater energy efficiencies through improved facilities will more than cover the debt service costs related to the lease transaction; from this perspective, the State has argued to the rating agencies that this lease should be self-supporting. Materials have been provided to and discussions have been held with the rating agencies on this matter. At this point, the rating agencies have not indicated a problem with the approach that the State has taken regarding the exclusion of this lease debt from the State's net tax-supported debt statement.

In addition, the State has considered the purchase of rail cars in the approximate amount of $18.5 million as a demonstration project, utilizing a Federal loan assistance program. Under a "buy-back" provision from the supplier of the rail cars, the State will be allowed, after making an initial down payment of approximately $1.8 million, to put back the cars to the supplier over the initial three-year period after delivery of the cars if the project proves unsatisfactory. As a result of various concerns that the State has with the credit structure of the proposed transaction, this contingent purchase transaction, in its present proposed form, may not proceed.

CDAAC has taken the appropriate position that in the absence of special security provisions, lease (capital) obligations must be taken into account as part of the authorization recommendation process. For example, for CDAAC's fiscal year 2001 general obligation debt recommendation, the amount was reduced from $39 million to $34 million when it was discovered that there was an outstanding capital lease in the amount of $5.0 million then being carried in the Department of Transportation.

Reasons for the Adjusted Fiscal 2009 Recommended Debt Authorization and for the Fiscal 2010 Recommended Debt Authorization

As stated above, CDAAC is proposing that the maximum amount of long-term G.O. debt authorized for the State in fiscal year 2009 be adjusted to $64.65 million and the maximum amount of long-term G.O. debt authorization for the State in fiscal year 2010 be $69.955 million. The rationale for this is as follows:

1. Last year, CDAAC proposed an increase to $54.65 million, or an increase of over 40% during the fiscal years, 2004-2009, inclusive. CDAAC is hereby proposing to raise the fiscal year 2009 authorization by $10 million to provide for the funding of certain transportation projects, with such debt being repaid over ten years. Considering the additional debt capacity that Vermont currently enjoys, CDAAC has concluded that the State is also able to authorize $69.955 million of general obligation debt, inclusive of an additional $10 million of transportation projects, during fiscal year 2010.

2. The fiscal 2005 recommended authorization rose by over 5% from $39 million to $41 million, and the fiscal year 2006 recommended authorization increased the fiscal year 2005 authorization by nearly 10% to $45 million for a growth of over 15% in two years. The fiscal year 2007 recommended authorization remained at the fiscal year 2006 level. Further, there was an additional $4.2 million increase for fiscal year 2008, reflecting a 26% increase over the 2004-2008 fiscal year period. While there has been an increase in annual authorizations of 79% between fiscal year 2004 and fiscal year 2010, we believe the growth is consistent with Vermont's debt affordability.

3. CDAAC is of the opinion that the adjusted fiscal year 2009 and fiscal year 2010 recommended authorizations are consistent with its policy of trying to provide important capital contributions to the State's physical infrastructure requirements within a framework of acceptable debt affordability. Over the period, beginning in fiscal year 2005 and inclusive of fiscal year 2010, CDAAC has recommended a sizeable amount of new capital funding for Vermont – that is, approximately $80.8 million of additional proceeds in aggregate from the sale of general obligation debt toward the State's capital improvement program.

4. While a purely statistical analysis could show a small level of additional capacity in 2009 beyond the $64.65 million authorization, the CDAAC does not believe it would be prudent to increase the FY 2009 authorization further. To do so would not only reduce additional capacity in 2010, it would likely be noted negatively by rating agencies, especially in light of the weak revenues, and would carry very high issuance costs, since the 2009 debt issuance is scheduled to be completed before further legislative authorization would be possible.

5. At present, the State is in compliance with all of its guidelines. Based on current projections, the proposed debt authorization amounts for fiscal year 2009 and fiscal year 2010 are expected to allow the State to be in line with all debt guidelines for the near future.

6. CDAAC has some concerns about the economic and financial uncertainties affecting the State and country near-term. With volatile oil prices, significant market volatility, Federal deficits, mortgage defaults and uneven economic trends, the economic and financial outlook of the State and the country is especially uncertain; as a result, CDAAC believes it is a prudent course of action for the

State, at present, to follow the proposed course of near-term State debt authorizations.

This year's report is organized into seven sections. **Section 1** presents the State's key existing debt statistics. **Section 2** consists of economic and financial forecasts. **Section 3** discusses the State's recent authorization history and sets forth the effect of the issuance of $64.65 million in fiscal 2009 and $69.955 million in fiscal years 2010-2019, inclusive of $10 million for transportation purposes in fiscal years 2009 and 2010, on future outstanding debt and debt service requirements. **Section 4** includes a history of the State's debt ratios and shows the projected effect of the Section 2 and 3 forecasts on the State's future debt ratios. **Section 5** summarizes the findings of the previous sections and offers considerations for the Committee in its determination of whether to revise the planned fiscal year debt authorizations. **Section 6** documents relevant provisions of the enabling legislation, as recently amended, and explains the methodology and assumptions behind certain projections included in this report. **Section 7** is composed of appendices, including rating agency reports and the "Vermont Economic Outlook" dated May 2008 published by the New England Economic Partnership ("NEEP").

We would like to express our gratitude to the State Treasurer's Office, the Department of Finance and Management, Economic and Policy Resources, Inc. ("EPR"), NEEP, and various officers and staff members of the State, whose assistance has been invaluable in completing this report. Certain computations and projections were made based on population, personal income, and revenue projections provided by EPR. The numbers presented herein have not been audited and are, therefore, subject to change, possibly in a substantial manner.

(THIS SPACE INTENTIONALLY LEFT BLANK)

1. DEBT STATISTICS

Net Tax-Supported Debt Outstanding

The State's aggregate net tax-supported principal amount of debt increased from $438.4 million as of June 30, 2007 to $438.6 million as of June 30, 2008, an increase of 0.04%. Except for the fiscal year 2002, when a carry-forward amount of authorization was included in the debt issue, for each of the fiscal years during the period 1999-2007, the State retired more G.O. bonds than it sold, including the issuance of refunding debt.

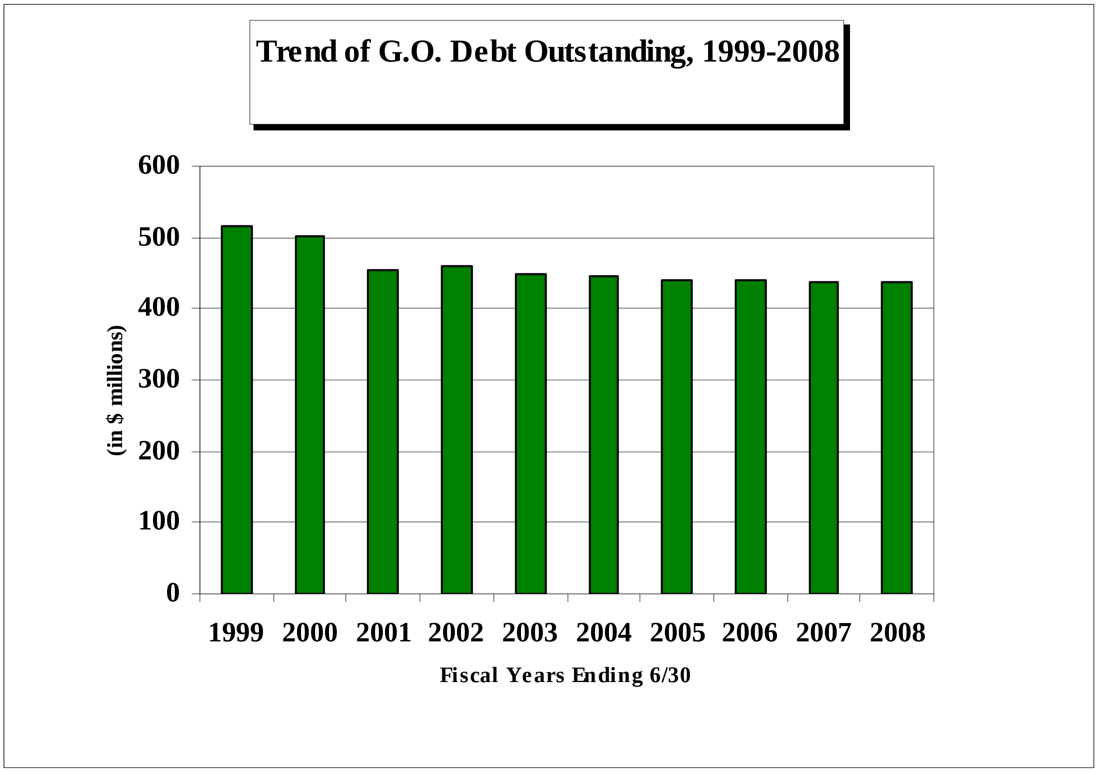
The table below sets forth the sources of the change in net tax-supported debt outstanding from fiscal year 2007 to fiscal year 2008 (in thousands):

Net Tax-Supported Debt as of 6/30/07	$438,397
G.O. New Money Bonds Issued	46,000
G.O. Refunding Bonds Issued	29,195
Less: Retired G.O. Bonds	(46,615)
Less: Refunded G.O. Bonds	(28,395)
Net Tax-Supported Debt as of 6/30/08	$438,582

Debt Statement
As of June 30, 2008 ($ Thousands)

General Obligation Bonds*:	
General Fund	421,374
Transportation Fund	9,088
Special Fund	8,120
Contingent Liabilities:	
VEDA Mortgage Insurance Program	8,288
VEDA Financial Access Program	882
Reserve Fund Commitments:	
Vermont Municipal Bond Bank	487,715
Vermont Housing Finance Agency	155,000
VEDA Indebtedness	70,000
Vermont Telecom Authority	40,000
Univ. of Vermont/State Colleges	100,000
Gross Direct and Contingent Debt	1,300,467
Less:	
Contingent Liabilities	(9,170)
Reserve Fund Commitments	(852,715)
Net Tax-Supported Debt	**438,582**

* Includes original principal amounts of Capital Appreciation Bonds.



G.O. DEBT OUTSTANDING, 1999-2008
(As of June 30, in $ millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL	517.3	503.9	454.9	460.5	448.2	444.7	440.3	440.0	438.4	438.6

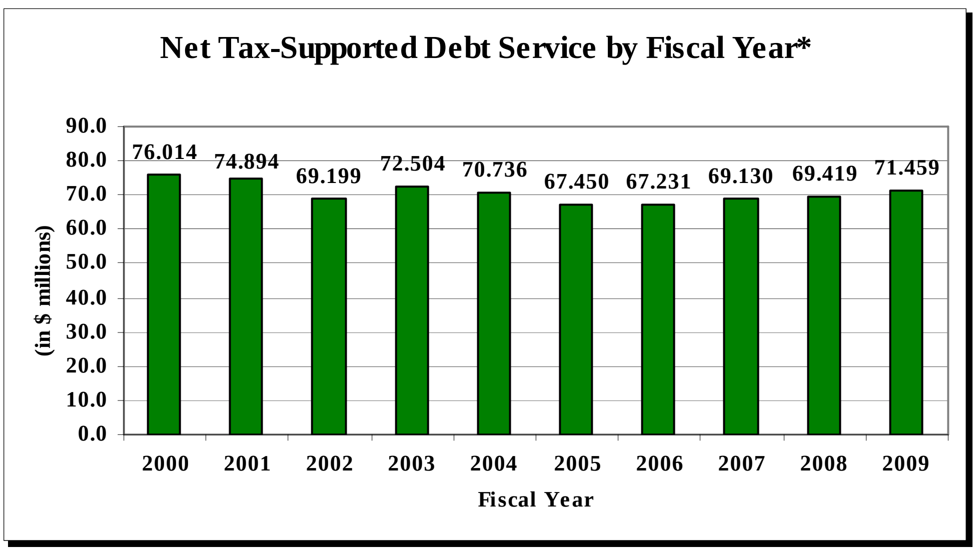
(THIS SPACE INTENTIONALLY LEFT BLANK)

Net Tax-Supported Debt Service by Fiscal Year

- The State's G.O. debt service requirement ("D/S") for fiscal year 2009 will be $71.50 million, 2.94% more than the $69.42 million paid in fiscal year 2008. This increase comes after annual decreases ranging from 0.3% to 7.6% over the period fiscal 2000 – fiscal 2007, except for an anomaly of a 4.8% increase in fiscal year 2003, and a 0.42% increase in fiscal year 2008.

Net Tax-Supported D/S Paid in FY 2008 (1)	$69,419
Decrease in D/S Requirement FY 2008-2009 (1)	(2,185)
D/S Increase Due to G.O. Debt Issued in FY 2008	4,225
Net Tax-Supported D/S Due in FY 2009	$71,459

(1) Includes $28,395,000 G.O. Bonds refunded during fiscal year 2008.



**Consists of General Obligation Bonds.*

(THIS SPACE INTENTIONALLY LEFT BLANK)

The table below sets forth the State's existing principal amounts outstanding and annual debt service requirements, as of June 30, 2008, without the issuance of any additional G.O. debt. Please refer to the table on page 21 for the State's projected principal amounts outstanding and annual debt service requirements assuming the issuance of G.O. debt as set forth in the table on page 2, herein, which includes the issuance of $54.65 million G.O. debt during fiscal year 2009 plus $10 million G.O. debt for transportation purposes in fiscal year 2009; such transportation debt will be amortized over ten years. For fiscal year 2010, CDAAC is recommending $69.955 million of G.O. authorization, representing, consistent with the 2008 legislation, $10 million of G.O. debt for transportation purposes, $54.65 million for general purposes, and an additional $5.305 million for other purposes, to be determined by the State.

PROJECTED GENERAL OBLIGATION NET TAX-SUPPORTED DEBT
As of June 30, 2008
(in $ thousands)

	GENERAL OBLIGATION BONDS (STATE DIRECT DEBT)							
	General Fund		Transportation Fund		Special Fund		Total	
Fiscal Year	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Debt Service	Beginning Principal Outstanding	Total Debt Service
2009	421,374	67,049	9,088	1,915	8,120	2,496	438,582	71,459
2010	376,509	62,042	7,594	1,798	6,030	2,500	390,133	66,339
2011	334,645	57,882	6,146	1,731	3,825	1,026	344,616	60,639
2012	295,468	51,810	4,695	1,645	2,985	626	303,148	54,082
2013	257,821	45,555	3,259	794	2,505	628	263,585	46,977
2014	224,110	44,228	2,605	764	2,000	629	228,715	45,621
2015	190,587	34,195	1,953	472	1,470	633	194,010	35,300
2016	164,377	29,968	1,563	356	910	636	166,850	30,959
2017	141,273	26,140	1,272	343	320	336	142,865	26,819
2018	121,049	23,078	981	232	0	0	122,030	23,310
2019	103,026	21,387	789	190	0	0	103,815	21,577

(THIS SPACE INTENTIONALLY LEFT BLANK)

2. ECONOMIC AND FINANCIAL FORECASTS

This section of the report is based on the economic analysis provided by NEEP for the State of Vermont. NEEP's report, "Vermont Economic Outlook," dated May 2008 (a copy of which is included in the appendices), states that "the Vermont economy will follow the U.S. economy and experience a general economic downturn over the first half of calendar year 2008. This recession will be followed by a slow, historically restrained recovery where healthier rates of growth do not re-emerge until the housing market downturn has run its course in late calendar year 2009 … On the upside, the best estimate is that the current downturn will turn out to be a 'short and shallow' one, milder than the mildest economic downturn experienced back in calendar year 2001.

"Payroll jobs [in Vermont] are expected to decline during calendar year 2008, followed by a gradual recovery, with an improving tone to the rate of job growth in the final three years of the forecast period [2009-2012)]. Output growth, except for 2008, is expected to rebound and recover-grow at a slightly higher pace than New England as a whole, and the employment rate will continue to remain among the lowest in New England region throughout the forecast period.

"The housing market downturn nationally, regionally and in Vermont and the still evolving sub-prime mortgage shake-out remain as the most significant unknown and the largest source of downside forecast risk in this NEEP forecast revision. The other major downside risk for the economy is the persistently high and still rising level of energy prices, with over $4.00 per gallon gasoline a reality in the weeks-months ahead as the summer driving season begins. Vermont's tourism economy and many of her manufacturers remain sensitive to high and rising fuel prices.

"Looking at the current Vermont situation, the top line numbers show an economy that remains sluggish. Year-over-year job growth has flattened out considerably since last fall. The data show a pace of job additions that have recently been and will likely continue to be at a slower rate than either Vermont's own historical average or the prospective U.S. average rate of change over the near-term time horizon. Some of the reasons for this have been pointed out in recent NEEP forecast updates. These include: (1) the housing sector downturn that has undermined what had recently been one of the more significant positive contributors to the Vermont economic upturn following the 2001 recession-particularly for second homes, (2) unfavorable demographics which has resulted in a slowing in labor force growth and left many potential job opportunities that could be filled within the State unfilled, (3) what many business analysts in the State regard as unfavorable business climate issues, including high energy costs and higher tax rates which increase the cost of doing business in the State, (4) a "high" cost of living for current and prospective employees-executives and their families which discourages new workforce immigrants and business decision-makers from locating in the State, and (5) lack of job opportunities and affordable work force housing choices for young professionals and their growing families. Each of these possible explanations has been put forth by one group or another in recent times. While there is not complete agreement among economists, economic development professionals, policy analysts and other stakeholders in Vermont about the contribution of any and all of the above-referenced factors, the facts show a sluggish pace to payroll job and total employment growth since last fall."

As shown in the table below, EPR's population estimate for 2008 is about 0.06% greater than its forecast for 2007, and its estimates of future population growth average about 0.22% annually from 2009 through 2019. Personal income increased 4.7% from 2007 to 2008 and is projected to achieve an average annual growth rate of 4.9% from 2009 through 2019. Estimated full valuation decreased 0.4% from 2007 to 2008 and is projected to achieve an average annual growth rate of 2.4% from 2009 through 2019, inclusive. EPR's current and projected General Fund and Transportation Fund revenues are shown in the table on the following page.

Current and Projected Economic Data [(1)]

Year	Population (in thousands)	Personal Income (in $ billions)	E.F.V. (in $ millions)
2006	620.8	21.65	56,409
2007	621.1	22.77	57,253
2008	621.5	23.85	57,021
2009	622.8	24.89	57,959
2010	623.9	26.15	60,293
2011	625.2	27.51	62,370
2012	626.5	28.96	63,882
2013	627.9	30.47	65,354
2014	629.3	31.96	66,806
2015	630.7	33.49	68,269
2016	632.2	35.10	69,682
2017	633.8	36.79	71,134
2018	635.3	38.54	72,589
2019	636.9	40.38	74,031

(1) These figures were prepared by EPR, except Effective Full Valuation. Projected Effective Full Valuation was based on Real Vermont Gross State Product annual growth rates provided by EPR.

As shown in the table below, total revenue for fiscal year 2008 is $51.7 million more than in fiscal year 2007, an increase of 3.8%. Fiscal year 2009 total revenue is forecast to decrease by $63.3 million, or 4.4%; the average annual revenue growth rate during the fiscal year period, 2009 through 2019, inclusive, is projected to be approximately 3.9%.

Current and Projected Revenues (2)

Fiscal Year	General Fund (in $ millions)	Transportation Fund (in $ millions)	Total Revenue (in $ millions)
2007	1,151.4	220.0	1,371.4
2008	1,200.0	223.1	1,423.1
2009	1,143.8	216.0	1,359.8
2010	1,176.6	222.9	1,399.5
2011	1,238.0	227.5	1,465.5
2012	1,302.6	236.1	1,538.7
2013	1,385.7	242.2	1,627.9
2014	1,470.0	251.2	1,721.2
2015	1,550.0	258.0	1,808.0
2016	1,628.0	267.4	1,895.4
2017	1,705.0	275.0	1,980.0
2018	1,780.0	285.2	2,065.2
2019	1,855.0	293.0	2,148.0

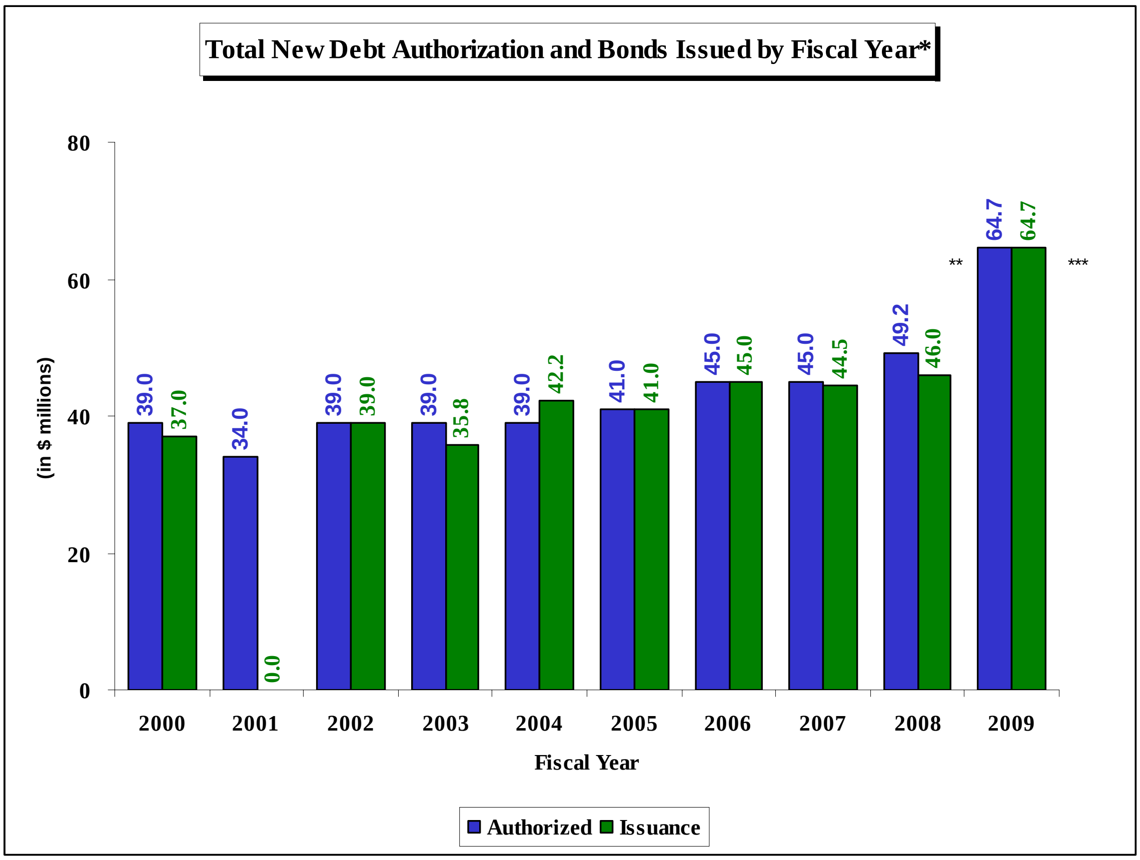
(2) Amounts shown are “current law” revenue forecasts, based on a consensus between the State’s administration and legislature. The official forecast is shown as of July 29, 2008.

(THIS SPACE INTENTIONALLY LEFT BLANK)

3. DEBT AUTHORIZATIONS AND PROJECTION SCENARIOS

Recent Debt Authorizations

In fiscal year 2008, $46.0 million of debt was issued, representing all but $3.2 million of the $49.2 million authorized for that year. During fiscal year 2009, $54.65 million of debt is expected to be sold, the total amount of the original 2009 recommended authorization, plus an additional $10 million for transportation purposes (amortized over ten years). We believe this trend in which the State has annually extinguished all or nearly all of the authorized amount of debt so that there doesn't exist a rising residual amount of authorized but unissued debt has enhanced the State's credit position with favorable responses from the rating agencies. The following chart presents the amounts of G.O. debt that have been authorized and issued by the State since fiscal year 2000.



** Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances. Note: It should be emphasized that a sizeable amount of the $34 million authorization in fiscal year 2001 was paid down through pay-as-you-go funding and the use of surplus funds.*
*** As approved by CDAAC.*
**** Anticipated to be issued.*
Note: Annual issuances do not include refunding bonds.

General Obligation and General Fund Supported Bond Debt Service Projections

The State's projected annual G.O. debt service and debt outstanding are presented on the following pages and summarized below. The projected debt service (at 6% interest rate) assumes the issuance of $54.65 million in G.O. debt during fiscal year 2009 plus $10 million in G.O. debt for transportation purposes also during fiscal year 2009; for fiscal years 2010-2019, the table assumes an annual issuance of $69.955 million, with $10 million of this amount being sold for transportation purposes in 2010.

TOTAL PROJECTED GENERAL OBLIGATION DEBT SERVICE AND DEBT OUTSTANDING (In Thousands of Dollars)

Fiscal Year Ending	G.O. Debt Service	G.O. Bonds Outstanding
6/30/2008	69,419	438,582
6/30/2009	71,459	454,783
6/30/2010	73,953	475,486
6/30/2011	75,643	496,233
6/30/2012	74,651	515,385
6/30/2013	72,948	535,730
6/30/2014	76,830	552,740
6/30/2015	71,583	573,795
6/30/2016	72,151	594,525
6/30/2017	72,757	614,905
6/30/2018	73,828	634,405
6/30/2019	76,513	651,370

On the following four pages are tables showing the projected G.O. debt service, G.O. bond principal payments, and G.O. bonds outstanding during each of the fiscal years, 2009 through 2019, inclusive. The table on page 22 sets forth the aggregate of the amounts presented on pages 23, 24 and 25, and shows the total amount of the projected issuance of $64,650,000 in fiscal year 2009 and $69,955,000 for the period of fiscal years 2010-2019, inclusive, including $10 million (amortized over ten years) for transportation purposes in both fiscal years 2009 and 2010.

(THIS SPACE INTENTIONALLY LEFT BLANK)

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. DEBT SERVICE ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	D/S	64.650M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	D/S
2009	71,459	0	0	0	0	0	0	0	0	0	0	0	71,459
2010	66,339	7,614	0	0	0	0	0	0	0	0	0	0	73,953
2011	60,639	7,390	8,202	0	0	0	0	0	0	0	0	0	75,643
2012	54,082	7,166	7,957	7,702	0	0	0	0	0	0	0	0	74,651
2013	46,977	6,942	7,717	7,487	7,702	0	0	0	0	0	0	0	72,948
2014	45,621	6,718	7,477	7,277	7,487	7,702	0	0	0	0	0	0	76,830
2015	35,300	6,494	7,237	7,067	7,277	7,487	7,702	0	0	0	0	0	71,583
2016	30,959	6,269	6,997	6,857	7,067	7,277	7,487	7,702	0	0	0	0	72,151
2017	26,819	6,045	6,757	6,647	6,857	7,067	7,277	7,487	7,702	0	0	0	72,757
2018	23,310	5,821	6,517	6,437	6,647	6,857	7,067	7,277	7,487	7,702	0	0	73,828
2019	21,577	5,597	6,277	6,227	6,437	6,647	6,857	7,067	7,277	7,487	7,702	0	76,513

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BOND PRINCIPAL PAYMENTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Principal	64.650M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	Principal
2009	48,449	0	0	0	0	0	0	0	0	0	0	0	48,449
2010	45,517	3,735	0	0	0	0	0	0	0	0	0	0	49,252
2011	41,468	3,735	4,005	0	0	0	0	0	0	0	0	0	48,938
2012	39,563	3,735	4,000	3,505	0	0	0	0	0	0	0	0	49,768
2013	34,870	3,735	4,000	3,500	3,505	0	0	0	0	0	0	0	47,810
2014	34,705	3,735	4,000	3,500	3,500	3,505	0	0	0	0	0	0	50,380
2015	27,160	3,735	4,000	3,500	3,500	3,500	3,505	0	0	0	0	0	45,570
2016	23,985	3,735	4,000	3,500	3,500	3,500	3,500	3,505	0	0	0	0	45,130
2017	20,835	3,735	4,000	3,500	3,500	3,500	3,500	3,500	3,505	0	0	0	44,715
2018	18,215	3,735	4,000	3,500	3,500	3,500	3,500	3,500	3,500	3,505	0	0	44,830
2019	17,280	3,735	4,000	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,505	0	46,630

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BONDS OUTSTANDING ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Debt	64.650M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	69.955M	Debt
2008	438,582	0	0	0	0	0	0	0	0	0	0	0	438,582
2009	390,133	64,650	0	0	0	0	0	0	0	0	0	0	454,783
2010	344,616	60,915	69,955	0	0	0	0	0	0	0	0	0	475,486
2011	303,148	57,180	65,950	69,955	0	0	0	0	0	0	0	0	496,233
2012	263,585	53,445	61,950	66,450	69,955	0	0	0	0	0	0	0	515,385
2013	228,715	49,710	57,950	62,950	66,450	69,955	0	0	0	0	0	0	535,730
2014	194,010	45,975	53,950	59,450	62,950	66,450	69,955	0	0	0	0	0	552,740
2015	166,850	42,240	49,950	55,950	59,450	62,950	66,450	69,955	0	0	0	0	573,795
2016	142,865	38,505	45,950	52,450	55,950	59,450	62,950	66,450	69,955	0	0	0	594,525
2017	122,030	34,770	41,950	48,950	52,450	55,950	59,450	62,950	66,450	69,955	0	0	614,905
2018	103,815	31,035	37,950	45,450	48,950	52,450	55,950	59,450	62,950	66,450	69,955	0	634,405
2019	86,535	27,330	33,950	41,950	45,450	48,950	52,450	55,950	59,450	62,950	66,450	69,955	651,370

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. DEBT SERVICE ($000)

FY	Current D/S	2009 Issue 54.65MM	2010 Issue 54.65MM	2011 Issue 54.65MM	2012 Issue 54.65MM	2013 Issue 54.65MM	2014 Issue 54.65MM	2015 Issue 54.65MM	2016 Issue 54.65MM	2017 Issue 54.65MM	2018 Issue 54.65MM	2019 Issue 54.65MM	Total Est. D/S
2009	71,459	0	0	0	0	0	0	0	0	0	0	0	71,459
2010	66,339	6,014	0	0	0	0	0	0	0	0	0	0	72,353
2011	60,639	5,850	6,014	0	0	0	0	0	0	0	0	0	72,503
2012	54,082	5,686	5,850	6,014	0	0	0	0	0	0	0	0	71,631
2013	46,977	5,522	5,686	5,850	6,014	0	0	0	0	0	0	0	70,048
2014	45,621	5,358	5,522	5,686	5,850	6,014	0	0	0	0	0	0	74,050
2015	35,300	5,194	5,358	5,522	5,686	5,850	6,014	0	0	0	0	0	68,923
2016	30,959	5,029	5,194	5,358	5,522	5,686	5,850	6,014	0	0	0	0	69,611
2017	26,819	4,865	5,029	5,194	5,358	5,522	5,686	5,850	6,014	0	0	0	70,337
2018	23,310	4,701	4,865	5,029	5,194	5,358	5,522	5,686	5,850	6,014	0	0	71,528
2019	21,577	4,537	4,701	4,865	5,029	5,194	5,358	5,522	5,686	5,850	6,014	0	74,333

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BOND PRINCIPAL PAYMENTS ($000)

FY	Current Principal	2009 Issue 54.65MM	2010 Issue 54.65MM	2011 Issue 54.65MM	2012 Issue 54.65MM	2013 Issue 54.65MM	2014 Issue 54.65MM	2015 Issue 54.65MM	2016 Issue 54.65MM	2017 Issue 54.65MM	2018 Issue 54.65MM	2019 Issue 54.65MM	Total Est. Principal
2009	48,449	0	0	0	0	0	0	0	0	0	0	0	48,449
2010	45,517	2,735	0	0	0	0	0	0	0	0	0	0	48,252
2011	41,468	2,735	2,735	0	0	0	0	0	0	0	0	0	46,938
2012	39,563	2,735	2,735	2,735	0	0	0	0	0	0	0	0	47,768
2013	34,870	2,735	2,735	2,735	2,735	0	0	0	0	0	0	0	45,810
2014	34,705	2,735	2,735	2,735	2,735	2,735	0	0	0	0	0	0	48,380
2015	27,160	2,735	2,735	2,735	2,735	2,735	2,735	0	0	0	0	0	43,570
2016	23,985	2,735	2,735	2,735	2,735	2,735	2,735	2,735	0	0	0	0	43,130
2017	20,835	2,735	2,735	2,735	2,735	2,735	2,735	2,735	2,735	0	0	0	42,715
2018	18,215	2,735	2,735	2,735	2,735	2,735	2,735	2,735	2,735	2,735	0	0	42,830
2019	17,280	2,735	2,735	2,735	2,735	2,735	2,735	2,735	2,735	2,735	2,735	0	44,630

EXISTING AND PROJECTED NET TAX-SUPPORTED G.O. BONDS OUTSTANDING ($000)

FY	Current Debt	2009 Issue 54.65MM	2010 Issue 54.65MM	2011 Issue 54.65MM	2012 Issue 54.65MM	2013 Issue 54.65MM	2014 Issue 54.65MM	2015 Issue 54.65MM	2016 Issue 54.65MM	2017 Issue 54.65MM	2018 Issue 54.65MM	2019 Issue 54.65MM	Total Est. Debt
2008	438,582	0	0	0	0	0	0	0	0	0	0	0	438,582
2009	390,133	54,650	0	0	0	0	0	0	0	0	0	0	444,783
2010	344,616	51,915	54,650	0	0	0	0	0	0	0	0	0	451,181
2011	303,148	49,180	51,915	54,650	0	0	0	0	0	0	0	0	458,893
2012	263,585	46,445	49,180	51,915	54,650	0	0	0	0	0	0	0	465,775
2013	228,715	43,710	46,445	49,180	51,915	54,650	0	0	0	0	0	0	474,615
2014	194,010	40,975	43,710	46,445	49,180	51,915	54,650	0	0	0	0	0	480,885
2015	166,850	38,240	40,975	43,710	46,445	49,180	51,915	54,650	0	0	0	0	491,965
2016	142,865	35,505	38,240	40,975	43,710	46,445	49,180	51,915	54,650	0	0	0	503,485
2017	122,030	32,770	35,505	38,240	40,975	43,710	46,445	49,180	51,915	54,650	0	0	515,420
2018	103,815	30,035	32,770	35,505	38,240	40,975	43,710	46,445	49,180	51,915	54,650	0	527,240
2019	86,535	27,330	30,035	32,770	35,505	38,240	40,975	43,710	46,445	49,180	51,915	54,650	537,290

PROJECTED G.O. DEBT SERVICE FOR TRANSPORTATION PROJECTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	D/S	10MM	10MM	None	None	None	None	None	None	None	None	None	D/S
2009	0	0	0	0	0	0	0	0	0	0	0	0	0
2010	0	1,600	0	0	0	0	0	0	0	0	0	0	1,600
2011	0	1,540	1,600	0	0	0	0	0	0	0	0	0	3,140
2012	0	1,480	1,540	0	0	0	0	0	0	0	0	0	3,020
2013	0	1,420	1,480	0	0	0	0	0	0	0	0	0	2,900
2014	0	1,360	1,420	0	0	0	0	0	0	0	0	0	2,780
2015	0	1,300	1,360	0	0	0	0	0	0	0	0	0	2,660
2016	0	1,240	1,300	0	0	0	0	0	0	0	0	0	2,540
2017	0	1,180	1,240	0	0	0	0	0	0	0	0	0	2,420
2018	0	1,120	1,180	0	0	0	0	0	0	0	0	0	2,300
2019	0	1,060	1,120	0	0	0	0	0	0	0	0	0	2,180

PROJECTED G.O. BOND PRINCIPAL PAYMENTS FOR TRANSPORTATION PROJECTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Principal	10MM	10MM	None	None	None	None	None	None	None	None	None	Principal
2009	0	0	0	0	0	0	0	0	0	0	0	0	0
2010	0	1,000	0	0	0	0	0	0	0	0	0	0	1,000
2011	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2012	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2013	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2014	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2015	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2016	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2017	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2018	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000
2019	0	1,000	1,000	0	0	0	0	0	0	0	0	0	2,000

PROJECTED G.O. BONDS OUTSTANDING FOR TRANSPORTATION PROJECTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Debt	10MM	10MM	None	None	None	None	None	None	None	None	None	Debt
2008	0	0	0	0	0	0	0	0	0	0	0	0	0
2009	0	10,000	0	0	0	0	0	0	0	0	0	0	10,000
2010	0	9,000	10,000	0	0	0	0	0	0	0	0	0	19,000
2011	0	8,000	9,000	0	0	0	0	0	0	0	0	0	17,000
2012	0	7,000	8,000	0	0	0	0	0	0	0	0	0	15,000
2013	0	6,000	7,000	0	0	0	0	0	0	0	0	0	13,000
2014	0	5,000	6,000	0	0	0	0	0	0	0	0	0	11,000
2015	0	4,000	5,000	0	0	0	0	0	0	0	0	0	9,000
2016	0	3,000	4,000	0	0	0	0	0	0	0	0	0	7,000
2017	0	2,000	3,000	0	0	0	0	0	0	0	0	0	5,000
2018	0	1,000	2,000	0	0	0	0	0	0	0	0	0	3,000
2019	0	0	1,000	0	0	0							1,000

PROJECTED G.O. DEBT SERVICE FOR ADDITIONAL PROJECTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	D/S	None	5.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	D/S
2009	0	0	0	0	0	0	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0	0	0	0	0	0	0
2011	0	0	588	0	0	0	0	0	0	0	0	0	588
2012	0	0	567	1,688	0	0	0	0	0	0	0	0	2,255
2013	0	0	551	1,637	1,688	0	0	0	0	0	0	0	3,877
2014	0	0	535	1,591	1,637	1,688	0	0	0	0	0	0	5,452
2015	0	0	519	1,545	1,591	1,637	1,688	0	0	0	0	0	6,981
2016	0	0	504	1,499	1,545	1,591	1,637	1,688	0	0	0	0	8,465
2017	0	0	488	1,454	1,499	1,545	1,591	1,637	1,688	0	0	0	9,902
2018	0	0	472	1,408	1,454	1,499	1,545	1,591	1,637	1,688	0	0	11,294
2019	0	0	456	1,362	1,408	1,454	1,499	1,545	1,591	1,637	1,688	0	12,640

PROJECTED G.O. BOND PRINCIPAL PAYMENTS FOR ADDITIONAL PROJECTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Principal	None	5.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	Principal
2009	0	0	0	0	0	0	0	0	0	0	0	0	0
2010	0	0	0	0	0	0	0	0	0	0	0	0	0
2011	0	0	270	0	0	0	0	0	0	0	0	0	270
2012	0	0	265	770	0	0	0	0	0	0	0	0	1,035
2013	0	0	265	765	770	0	0	0	0	0	0	0	1,800
2014	0	0	265	765	765	770	0	0	0	0	0	0	2,565
2015	0	0	265	765	765	765	770	0	0	0	0	0	3,330
2016	0	0	265	765	765	765	765	770	0	0	0	0	4,095
2017	0	0	265	765	765	765	765	765	770	0	0	0	4,860
2018	0	0	265	765	765	765	765	765	765	770	0	0	5,625
2019	0	0	265	765	765	765	765	765	765	765	770	0	6,390

PROJECTED G.O. BONDS OUTSTANDING FOR ADDITIONAL PROJECTS ($000)													
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	Current	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Issue	Est.
FY	Debt	None	5.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	15.305M	Debt
2008	0	0	0	0	0	0	0	0	0	0	0	0	0
2009	0	0	0	0	0	0	0	0	0	0	0	0	0
2010	0	0	5,305	0	0	0	0	0	0	0	0	0	5,305
2011	0	0	5,035	15,305	0	0	0	0	0	0	0	0	20,340
2012	0	0	4,770	14,535	15,305	0	0	0	0	0	0	0	34,610
2013	0	0	4,505	13,770	14,535	15,305	0	0	0	0	0	0	48,115
2014	0	0	4,240	13,005	13,770	14,535	15,305	0	0	0	0	0	60,855
2015	0	0	3,975	12,240	13,005	13,770	14,535	15,305	0	0	0	0	72,830
2016	0	0	3,710	11,475	12,240	13,005	13,770	14,535	15,305	0	0	0	84,040
2017	0	0	3,445	10,710	11,475	12,240	13,005	13,770	14,535	15,305	0	0	94,485
2018	0	0	3,180	9,945	10,710	11,475	12,240	13,005	13,770	14,535	15,305	0	104,165
2019	0	0	2,915	9,180	9,945	10,710	11,475	12,240	13,005	13,770	14,535	15,305	113,080

4. DEBT RATIOS

G.O. Debt Guidelines

In the last several years, the State's investment grade ratings have significantly improved. Even before the State's rating was increased to Aaa by Moody's in February, 2007, the State had been the highest rated state in New England for several years. The State also enjoys high double-A ratings from the two other nationally recognized credit rating agencies. The State is currently pursuing a strategy to achieve a triple-A rating in the near future from all three nationally recognized credit rating agencies and has employed its debt load guidelines to assist the State achieve this goal.

CDAAC has adopted guidelines that are consistent with a triple-A rated state. As such, there are four guidelines that are followed by CDAAC in the development of the annual proposed general obligation bond authorization. First, the State will be guided annually by its ability to meet the 5-year mean in debt per capita for triple-A states. Second, the State should be able annually to meet the 5-year median of triple-A states in debt per capita. Third, the State should be able to meet annually the 5-year mean of debt as a percent of personal income for triple-A states. Fourth, Vermont will be guided by its ability to meet the 5-year median for triple-A states of debt as a percent of personal income. As of the end of fiscal 2008, Vermont is now able to meet all four standards for debt per capita and debt as a percent of personal income.

In addition, CDAAC has adopted the guideline of limiting annual general obligation debt service to no more than 6% of operating revenues, consisting of the annual aggregate of General and Transportation Funds. At present and based on the fiscal 2009 adjusted recommended debt authorization and the proposed fiscal 2010 debt authorization amounts, the State will be in compliance with the 6% guideline for the foreseeable future. For State purposes, this is an especially critical guideline, and while the State expects to be below 6%, there will be a need to monitor the State's performance in this area very closely. Please see the accompanying charts to evaluate the State's current and anticipated position with respect to the CDAAC guidelines.

This section discusses the impact of the proposed issuance of $64.65 million of G.O. debt during fiscal year 2009 and $69.955 million annually thereafter for each of the fiscal years, 2010 through 2019, inclusive of $10 million of G.O. debt for transportation purposes during fiscal year 2009 and fiscal year 2010. Please refer to the "Historical and Projected Debt Ratios" on page 31 for the statistical detail described below.

Debt Per Capita

The Committee has adopted a guideline for the State to equal or perform better than the 5-year mean and median of triple-A rated states on the basis of debt per capita. At present, the targets are $891 for the mean and $765 for the median. Based on data from Moody's Investors Service, Vermont's 5-year mean and median debt per capita figures are better than the 5-year mean and median for triple-A rated states. Using the 5-year

Moody's median for triple-A rated states ($765) and increasing it by 2.70% annually, combined with an assumption that the State will issue $64.65 million during fiscal year 2009 and $69.955 million in 2010-2019, Vermont will continue to be below the Moody's 5-year mean and 5-year median for triple-A rated states during fiscal years 2009 through 2019, inclusive (see "Historical and Projected Debt Ratios"). It should be emphasized that the debt numbers for Vermont have been falling and stabilizing while those of the triple-A rated states, on a composite basis, have been rising.

Debt as a Percent of Personal Income

The Committee also adopted a guideline for the State to equal or perform better than the 5-year mean and 5-year median of triple-A rated states on the basis of debt as a percent of personal income. At present, the targets are 2.8% for the mean and 2.5% for the median. Based on data from Moody's Investors Service, Vermont's debt as a percent of personal income figure is better than the 5-year mean and 5-year median for triple-A rated states. Moreover, considering the 2008 figures alone, Vermont's relative comparison improves even more, with a widening gap between Vermont's figure and those of the triple-A rated states. Assuming that the State will issue $64.65 million in fiscal year 2009 and $69.955 million in fiscal years 2010-2019, including $10 million for transportation purposes in fiscal years 2009 and 2010, Vermont should be able to comply with the 5-year mean and 5-year median for triple-A rated states (see "Historical and Projected Debt Ratios").

Debt Service as a Percentage of Revenues

This ratio, reflecting annual general obligation debt service as a percent of the annual aggregate General and Transportation Funds, is currently 5.0%. With the projected issuance of G.O. debt, this ratio is expected to increase to 5.3% for fiscal years 2009 and 2010 and drop 0.01%-0.05% annually thereafter until fiscal year 2019, at which time it is estimated to be 3.6%. As noted elsewhere herein, the State's adopted standard for this category is 6% of annual general obligation debt service as a percent of the annual aggregate General and Transportation Funds. At present and for the foreseeable future, it is anticipated that the State will satisfy this standard by a considerable margin.

(THIS SPACE INTENTIONALLY LEFT BLANK)

STATE OF VERMONT

APPROACH TOWARD ESTABLISHING DEBT RATIO GOALS

Comparative Mean Debt Ratios*

Per Capita	2004	2005	2006	2007	2008
All States	$ 944	$ 999	$1,060	$1,101	$1,158
Triple-A**	823	831	879	922	998
VERMONT	**724**	**716**	**707**	**706**	**707**
% of Pers. Inc.	**2004**	**2005**	**2006**	**2007**	**2008**
All States	3.1%	3.2%	3.2%	3.2%	3.2%
Triple-A**	2.7	2.7	2.8	2.7	2.8
VERMONT	**2.5**	**2.3**	**2.2**	**2.1**	**2.0**

* Based on data provided by Moody's Investors Service and excluding Florida prior to 2006 and Vermont.

** See chart on "Debt Per Capita" for complete listing of triple-A states and respective ratings. Eleven states currently rated triple-A by one or more of the nationally recognized rating agencies: Delaware, Florida (in 2005), Georgia, Maryland, Minnesota, Missouri, North Carolina, South Carolina, Utah, Virginia and Vermont (in 2007).

Listing of Triple-A Rated States By Rating Agency

2007 Triple-A Rated States	Fitch	Moody's	S&P
Delaware	Yes	Yes	Yes
Florida	No	No	Yes
Georgia	Yes	Yes	Yes
Maryland	Yes	Yes	Yes
Minnesota	Yes	No	Yes
Missouri	Yes	Yes	Yes
North Carolina	Yes	Yes	Yes
South Carolina	Yes	Yes	No
Utah	Yes	Yes	Yes
Virginia	Yes	Yes	Yes
VERMONT	No	Yes	No

(THIS SPACE INTENTIONALLY LEFT BLANK)

STATE OF VERMONT

MOODY'S INVESTORS SERVICE
DEBT PER CAPITA

Triple-A Rated States	July, 2008 Ratings Moody's	S&P	Fitch	2004	2005	2006	2007	2008
Delaware	Aaa/Stable	AAA/Stable	AAA/Stable	$1,800	$1,865	$1,845	$1,998	$2,002
Florida*	Aa1/Stable	AAA/Stable	AA+/Stable	1,023	1,008	976	1,020	1,005
Georgia	Aaa/Stable	AAA/Stable	AAA/Stable	827	803	784	916	954
Maryland	Aaa/Stable	AAA/Stable	AAA/Stable	1,077	1,064	1,169	1,171	1,297
Minnesota	Aa1/Stable	AAA/Stable	AAA/Stable	691	679	746	827	879
Missouri	Aaa/Stable	AAA/Stable	AAA/Stable	461	449	496	613	675
North Carolina	Aaa/Stable	AAA/Stable	AAA/Stable	556	682	804	728	898
South Carolina	Aaa/Negative	AA+/Stable	AAA/Stable	599	558	661	630	966
Utah	Aaa/Stable	AAA/Stable	AAA/Stable	846	792	707	621	542
Virginia	Aaa/Stable	AAA/Stable	AAA/Stable	546	589	601	692	764
MEAN**	___________	___________	___________	**823**	**831**	**879**	**922**	**998**
MEDIAN**	___________	___________	___________	**691**	**682**	**765**	**778**	**926**
VERMONT*	Aaa/Stable	AA+/Stable	AA+/Stable	724	716	707	706	707

* Florida raised to triple-A in 2005 and first reflected in 2006 numbers; Vermont raised to triple-A in 2007.
** These calculations include Florida for the years 2006, 2007 and 2008, and exclude Vermont numbers.

Triple-A Rated States
5-Year Mean and Median Including Florida and Excluding Vermont:
MEAN: $891 Vermont: $712
MEDIAN: $765 Vermont: $707

(THIS SPACE INTENTIONALLY LEFT BLANK)

STATE OF VERMONT

MOODY'S INVESTORS SERVICE
DEBT AS % OF PERSONAL INCOME

Triple-A Rated States	2004	2005	2006	2007	2008
Delaware	5.6%	5.5%	5.3%	5.5%	5.2%
Florida*	3.5	3.4	3.2	3.1	2.8
Georgia	2.9	2.8	2.7	3.0	3.0
Maryland	3.0	2.9	3.0	2.8	3.0
Minnesota	2.0	2.0	2.1	2.2	2.3
Missouri	1.6	1.5	1.6	1.9	2.1
North Carolina	2.0	2.5	2.8	2.4	2.8
South Carolina	2.4	2.2	2.5	2.3	3.3
Utah	3.5	3.2	2.7	2.3	1.9
Virginia	1.7	1.8	1.7	1.8	1.9
MEAN**	**2.7**	**2.7**	**2.8**	**2.7**	**2.8**
MEDIAN**	**2.4**	**2.5**	**2.7**	**2.3**	**2.8**
VERMONT*	2.5	2.3	2.2	2.1	2.0

* Florida raised to triple-A in 2005 and first reflected in 2006 numbers; Vermont raised to triple-A in 2007.
** These calculations include Florida for the years 2006, 2007 and 2008, and exclude Vermont numbers.

Triple-A Rated States

5-Year Mean and Median Including Florida and Excluding Vermont:
MEAN: 2.7% Vermont: 2.2%
MEDIAN: 2.5% Vermont: 2.2%

(THIS SPACE INTENTIONALLY LEFT BLANK)

Historical and Projected Debt Ratios

Fiscal Year (ending 6/30)	Net Tax-Supported Debt Per Capita (in $): State of Vermont	Moody's Median	State's Rank (4)	Net Tax-Supported Debt as Percent of Personal Income: State of Vermont	Moody's Median	State's Rank (4)	Net Tax-Supported Debt Service as Percent of Revenues (5): State of Vermont (2)	Moody's Median	State's Rank (4)
Actual (1)									
1997	992	422	9	4.7	2.1	8	6.9	n.a.	n.a
1998	946	446	9	4.2	1.9	9	7.6	n.a.	n.a
1999	953	505	10	4.2	2.0	10	7.2	n.a.	n.a
2000	925	540	9	3.8	2.2	10	7.0	n.a.	n.a
2001	828	541	15	3.3	2.1	14	6.8	n.a.	n.a.
2002	813	573	18	3.0	2.3	14	6.5	n.a.	n.a.
2003	861	606	16	3.0	2.2	17	6.7	n.a.	n.a.
2004	724	701	24	2.5	2.4	25	6.0	n.a.	n.a.
2005	716	703	25	2.3	2.4	27	5.4	n.a.	n.a.
2006	707	754	29	2.2	2.5	28	5.1	n.a.	n.a.
2007	706	787	28	2.1	2.4	30	5.1	n.a.	n.a.
2008	707	889	32	2.0	2.6	33	5.0	n.a.	n.a.
Current (2)	706	n.a.	n.a.	1.8	n.a.	n.a.	5.0	n.a.	n.a.
Projected (FYE 6/30) (3)		State Guideline (6)			State Guideline (7)			State Guideline	
2009	730	786		1.8	2.5		5.3	6.0	
2010	762	807		1.8	2.5		5.3	6.0	
2011	794	829		1.8	2.5		5.2	6.0	
2012	823	851		1.8	2.5		4.9	6.0	
2013	853	874		1.8	2.5		4.5	6.0	
2014	878	898		1.7	2.5		4.5	6.0	
2015	910	922		1.7	2.5		4.0	6.0	
2016	940	947		1.7	2.5		3.8	6.0	
2017	970	972		1.7	2.5		3.7	6.0	
2018	999	999		1.6	2.5		3.6	6.0	
2019	1,023	1,026		1.6	2.5		3.6	6.0	
5-Year Moody's Mean for Triple-A States		891			2.8			n.a.	
5-Year Moody's Median for Triple-A States		765			2.5			n.a.	

(1) Actual data for 1997 to 2008 were compiled by Moody's Investors Service, reflective of all 50 states.
(2) Calculated by Government Finance Associates, Inc.
(3) Projections assume the issuance of $54.65 million of G.O. debt during fiscal year 2009 and thereafter through fiscal year 2019 plus $10 million of additional G.O. debt during fiscal years 2009 and 2010 for transportation purposes, $5,305,000 during FY 2010 for additonal G.O. debt, and $15,305,000 annually from FY 2011 through 2019, inclusive, for additional G.O. debt.
(4) Rankings are in numerically descending order (i.e., from high to low debt).
(5) Revenues are adjusted beginning in fiscal year 1998 reflecting "current law" revenue forecasts based on a consensus between the State's administration and legislature.
(6) State Guideline equals the 2008 5-year Moody's median for triple-A states of $765 increasing annually at 2.7%.
(7) The 5-year Moody's median for triple-A States (2.5%) has not been increased for the period 2009-2019 since the annual number is quite volatile, ranging from 2.3% to 2.8% over the last five years.

5. SUMMARY

The State's positive debt trends are highlighted as follows:

- Vermont is now able to comply with CDAAC's debt guidelines for triple-A rated states. Based on the adjusted debt recommendation for fiscal year 2009 and on the proposed debt recommendation for fiscal year 2010, CDAAC expects the State to continue with this compliance over the fiscal years, 2009 through 2019, inclusive.

- The State's revenue surpluses experienced in previous years, resulting in the funding (often at full funding) of the State's budgetary stabilization funds for the General, Transportation, and Education Funds, also contributed to significant pay-as-you-go and budgetary surplus amounts being employed for funding Vermont capital improvements.

- The State's practice of issuing debt with level annual principal installments has resulted in a favorable amortization rate. At roughly 78% within ten years, the State's bond payout ratio (rapidity of debt repayment) has been favorably received by the rating agencies and represents a debt management characteristic to be continued. It should be noted that the proposed new transportation debt, anticipated to be sold in the amount of $10 million in fiscal years 2009 and 2010, will be amortized over ten years; as a result, it is expected that the recapture of debt capacity by the State through accelerated principal amortization will be maintained, if not improve modestly.

Based on the adjusted debt recommendation for fiscal 2009 and the proposed debt recommendation for fiscal year 2010, CDAAC believes that Vermont's debt position will continue to be well received by the rating agencies and the financial markets generally.

(THIS SPACE INTENTIONALLY LEFT BLANK)

6. PROVISIONS OF ENABLING LEGISLATION AND METHODOLOGY

The Committee is responsible for the submission of a recommendation to the Governor and the General Assembly of the maximum amount of new long-term, net tax-supported indebtedness (at this point, general obligation debt) that the State may prudently issue for the ensuing fiscal year. Such recommendation includes guidelines and other matters that may be relevant to the proposed debt to be authorized. The deadline for the Committee's annual recommendation is September 30th. The 2008 legislative session required that CDAAC provide an estimate (to be reported by Oct. 1, 2008) of the amount of additional long-term net tax-supported debt, in addition to the $54,650,000 that had been recommended by CDAAC for fiscal 2009, that prudently may be authorized for transportation purposes. In addition, the 2008 legislative session required that CDAAC, for its fiscal 2010 recommendation, take into account, for transportation purposes, the same considerations that went into the revised CDAAC 2009 recommendation.

As previously mentioned herein, there were a series of adjustments made during the most recent 2008 Vermont legislative session to the CDAAC enabling legislation. Many of these have already been discussed. However, there were changes to the composition of the Committee that have not been described. The major legislative adjustments regarding the composition of CDAAC are as follows:

1. The Governor now has two appointments, and the State Treasurer has one. In each case, the individuals shall not be officials or employees of the State and shall have experience in accounting or finance.

2. A representative of the VMBB to CDACC shall be chosen by the directors of the bank.

3. The Auditor of Accounts shall now be a non-voting member of CDAAC.

In addition, the legislature also replaced in the enabling legislation, "general obligation," with "net tax-supported indebtedness." At this point, all of the State's net tax-supported indebtedness actually consists of only general obligation debt. However, in practical terms, the State's debt load, as computed by the nationally recognized rating agencies, in determining the overall State debt, as reflected in the comparative debt statistics, is based, not just on a state's general obligation debt, but on its net tax-supported indebtedness. Moreover, in the future, capital lease transactions, such as the Noresco energy lease or the dormant railcar transaction, if implemented, could conceivably be added to Vermont's debt profile and constitute part of the State's overall net tax-supported indebtedness, which is the proper measure of a borrower's debt load. Further, GARVEE type and pension debt structures are often considered part of the net tax-supported indebtedness by various of the rating agencies, and should the State decide to pursue any such transaction, then the related indebtedness would be considered, at least by certain of the agencies, to constitute part of net tax-supported indebtedness. It was therefore appropriate for the State to amend the legislation so that CDAAC would focus on net tax-supported indebtedness exposure, not just general obligation debt, although, at present, they are the same.

In making its recommendation, CDAAC has the responsibility to consider the following provisions of the enabling legislation:

SUBPARAGRAPH (1):

The amount of state net state tax-supported indebtedness that, during the next fiscal year, and annually for the following nine fiscal years:

(A) will be outstanding; and

(B) have been authorized but not yet issued.

SUBPARAGRAPH (2):

A projected schedule of affordable state net state tax-supported bond authorizations for the next fiscal year and annually for the following nine fiscal years. The assessment of the affordability of the projected authorizations shall be based on all of the remaining considerations specified in this section.

SUBPARAGRAPH (3)

Projected debt service requirements during the next fiscal year, and annually for the following nine fiscal years, based upon:

(A) existing outstanding debt;

(B) previously authorized but unissued debt; and

(C) projected bond authorizations.

SUBPARAGRAPH (4)

The criteria that recognized bond rating agencies use to judge the quality of issues of state bonds, including but not limited to:

(A) existing and projected total debt service on net tax-supported debt as a percentage of combined general and transportation fund revenues, excluding surpluses in these revenues which may occur in an individual fiscal year; and

(B) existing and projected total net tax-supported debt outstanding as a percentage of total state personal income.

SUBPARAGRAPH (5)

The principal amounts currently outstanding, and balances for the next fiscal year, and annually for the following nine fiscal years, of existing:

(A) obligations of instrumentalities of the state for which the state has a contingent or limited liability;

(B) any other long-term debt of instrumentalities of the state not secured by the full faith and credit of the state, or for which the state legislature is permitted to replenish reserve funds; and

(C) to the maximum extent obtainable, all long-term debt of municipal governments in Vermont which is secured by general tax or user fee revenues.

The effect of the above items, 5(A), 5(B) and 5(C), on State debt affordability is a function of the level of dependency for the repayment of this particular debt on the State's general operating revenues. With respect to this matter, the principle that the rating agencies follow should give us relevant guidance: Until such time that the State's guarantee or contingent obligation becomes actual (through a payment or a replenishment obligation being made), then such debt or guarantee is not included in the State's net tax-supported indebtedness. Similarly, to the extent that the State has not been called upon to pay for the debt components, as envisioned in Subparagraph (5)(C), then those items should not become quantifiable factors included in the affordability analysis.

- Contingent or Limited Liability Obligations (all figures as of June 30, 2008):

1. VEDA Mortgage Insurance Program: The State had a contingent liability of $8.29 million with respect to this Program.

2. VEDA Financial Access Program: The State had a contingent liability of $0.9 million with respect to this Program.

- Reserve Fund Commitments (all figures as of June 30, 2008):

1. Vermont Municipal Bond Bank: The Bank had $487.7 million of debt outstanding secured by reserve fund commitments from the State. At present, there is no limit on the amount of reserve fund ("moral obligation") debt that the Bank may issue and have outstanding. The General Assembly is legally authorized, but not legally obligated, to appropriate money to maintain the reserve funds at their required levels. Since participating borrowers have always met their obligations on bonds of the Bank, the State has not been required to appropriate money to the reserve fund for this program.

2. Vermont Housing Finance Agency ("HFA"): The VHFA has received a legislative commitment of $155 million of moral obligation debt secured by reserve fund fill-up

mechanism from the State. It has not been necessary for the State to appropriate money for the reserve fund.

3. It should also be noted that the State has authorized the VEDA to incur indebtedness in an amount of $70 million secured by the State's reserve fund commitment. Based upon VEDA's historical performance and the quality of the loans it has provided and expects to provide, it is not anticipated that it will be necessary for the State to appropriate money for the reserve fund.

4. Legislation was passed in 2007 to create the Vermont Telecom Authority to facilitate broadband and related access to an increased number of Vermonters. In this connection, the State has authorized $40 million of debt that will have a moral obligation pledge from the State. The legislation requires that projects must be self-supporting in order to utilize the moral obligation support. Combined with the fact that no debt has yet been issued by the Authority, the report has not included any portion of such debt in the State's net tax-supported debt computations.

5. Legislation was passed in 2008 to provide a moral obligation pledge from the State to the University of Vermont in the amount of $66 million and to the State Colleges in the amount of $34 million. It is not expected that the State will need to appropriate money to the respective reserve funds for these purposes.

- Municipal Debt:

In conformance with the standards followed by the rating agencies, this evaluation does not set forth or incorporate any debt obligations of Vermont municipalities. Should any such obligations be required to be payable by the State (e.g., through assumption or support of local debt as part of a financial emergency), a corresponding and appropriate amount related to the State's contribution would then be required to be included in the analysis. At present, no such liability has occurred, and, therefore, none has been included in this review.

SUBPARAGRAPH (6):

The impact of capital spending upon the economic conditions and outlook for the state.

In 2008, new language, "impact of capital spending upon the," was added to this subparagraph. It should be noted that CDAAC routinely considers this factor in the context of its deliberations. Indeed, in the early 1990s, CDAAC recommended significantly higher debt authorization during an economic downturn. There is always a concern at the rating agencies when a state meaningfully enlarges its debt program to ameliorate periodic economic downturns. The rating agencies will often advise that long-term annual costs, in the form of higher debt service and frequently higher administrative and operating expenses, can accompany such an increased debt program.

SUBPARAGRAPH (7):

The cost-benefit of various levels of debt financing, types of debt, and maturity schedules.

This subparagraph was added to the enabling legislation in 2008.

CDAAC annually goes through an extensive analysis to determine the "cost-benefit of various levels of debt financing." The cost-benefit is demonstrated by CDAAC's determination of the amount of debt that the State should annually authorize and achieve compliance with CDAAC's articulated affordability guidelines. This evaluation is fundamental to CDAAC's responsibility in recommending annually the amount of net tax-supported indebtedness (i.e., general obligation, at present) that should be authorized by the State.

Second, with respect to the "types of debt," Vermont and its financing agencies have utilized a great variety of debt types. At present, revenue bonds are sold by VSAC, VHFA, VEDA, among others. The State Treasurer's office has looked at a series of options for possible revenue bond issuance, but, because of Vermont's special circumstances, revenue bonds have not appeared to be an answer to the State's direct infrastructure needs, except for VSAC, VHFA and VEDA. Moreover, for certain other purposes, such as transportation needs (i.e., GARVEE debt), it appears that the associated revenue bonds would, in fact, be added to the State's net tax-supported debt, thereby eliminating the effective use of revenue debt for funding Vermont physical infrastructure. Notwithstanding the fact that there have been no new revenue bond uses for funding Vermont infrastructure requirements, the State will continue to explore possible opportunities in this respect that would not cause debt load or debt management difficulties for Vermont.

Further, quasi-revenue bonds, such as moral obligation or reserve fund commitments, have also been employed by VMBB, VEDA, and VHFA, and such debt is now authorized for issuance by VTA, UVM and State Colleges. There is a more extensive discussion of the State's moral obligation commitments elsewhere in this report. In addition, the State, in the past, has directly employed capital lease debt, largely in the form of certificates of participation; however, this type of debt was proven to be expensive and created an undue complexity for the State's net tax-supported debt statement, and the State decided in the late 1990s to refund the certificate of participation indebtedness with general obligation debt – with the rating agencies indicating at the time and subsequently their pleasure with the State's actions. It should be noted, however, that for certain short-term and special purposes, such as the energy savings program and possibly the railcar purchase, the use of capital lease debt can be efficient. The State will continue to review the extent to which efficient employment of lease financings can be achieved in Vermont's debt program.

CDAAC and the State Treasurer's Office are constantly reviewing prospects for funding of required infrastructure through approaches that will not add to the State's net tax-supported indebtedness.

The maturity schedules employed for State indebtedness are directly tied to State statute. Moreover, as indicated elsewhere herein, Vermont's current debt repayment for its general obligation bonds allows the State to recapture debt capacity at an attractive pace. By shortening the debt service payments, it would have the effect of placing more fixed costs in the State's annual operating budget, leaving less funds available for discretionary spending. By lengthening debt payments, that would increase the aggregate amount of the State's outstanding indebtedness, which would cause Vermont's debt per capita and debt as a percentage of personal income to rise, reducing the State's ability to comply with its affordability guidelines. Notwithstanding these limitations, there may be opportunities for the State in the future to adjust the maturity of its indebtedness to achieve various debt management goals over time.

SUBPARAGRAPH (8):

Any projections of capital needs authorized or prepared by the agency of transportation, the joint fiscal office, or other agencies or departments.

This subparagraph was added to the enabling legislation in 2008.

CDAAC is proceeding in its compliance with this provision. For example, when the State Treasurer's special transportation report is completed, it will be cited appropriately in future reports and will be part of CDAAC's deliberations. In addition, material on school construction, transportation, and other infrastructure capital requirements will be considered as this information is provided to CDAAC over time.

Any other factor that is relevant to:

(A) the ability of the state to meet its projected debt service requirements for the next five fiscal years; or

(B) the interest rate to be borne by, the credit rating on, or other factors affecting the marketability of state bonds.

There are numerous factors that can affect the State's affordability to incur future indebtedness, including the prospective State economy and the availability of adequate financial resources. Of course, it should be recognized that even though the debt load indices employed in this report are also used by the rating agencies for determining the amount of net tax-supported indebtedness that the State can effectively support, these indices do not take into consideration the possibility for deterioration in the State's financial results. For example, if the State were to confront a significantly increased or new financial liability that was not contemplated in the context of this analysis, the predictability of these debt load and related indices would become less certain. Similarly, if the State were to incur serious deficits or face a dangerously eroding economy, the ability of the State to incur debt in the future could be affected. These managerial and unpredictable aspects of debt affordability have not been considered in this analysis. It should be emphasized that the rating agencies, in the development of the various comparative debt ratios that are applied and reviewed in the rating of State debt obligations, also do not predict the impact of unexpected financial fortunes that can befall governmental borrowers. It will be important for State officials to monitor Vermont's annual financial condition and results, together with the State's economic trends, in order to evaluate the State's credit position to determine whether annual issuance of debt should be adjusted to reflect a changing financial outlook and credit condition for the State under altered circumstances.

With respect to the interest rate and credit ratings assumed in the evaluation, the report has made realistic and conservative assumptions, consistent with the past. For anticipated debt issuances, the interest rate on future State G.O. indebtedness is assumed at 6.00%. The 11-bond Index has not meaningfully changed from last year; we still believe the use of a 6.00% rate is reasonable and appropriate.

At the same time, we have assumed that the State will maintain its current ratings: "Aaa" from Moody's, "AA+" from S&P, and "AA+" from Fitch. Of course, a negative change in the State's ratings in the future could adversely affect the comparative interest rates that Vermont pays on its bond issues, thereby increasing the amount of the State's annual fixed costs for debt service. This effect could reduce the amount of long-term, net tax-supported indebtedness that the State can annually afford to issue.

(THIS SPACE INTENTIONALLY LEFT BLANK)

7. APPENDICES

A. 2008 State Debt Medians (Moody's Investors Service)

B. Fitch Ratings Credit Report

C. Moody's Investors Service Credit Report

D. Moody's U.S. States Credit Scorecard 2008

E. Standard & Poor's Credit Report

F. Vermont Economic Outlook (New England Economic Partnership)

Moody's
U.S. Public Finance

Special Comment

March 2008

2008 State Debt Medians

Table of Contents:

Analyst Contacts:

New York 1.212.553.1653

Kimberly Lyons
Associate Analyst

Maria Coritsidis
Assistant Vice President

Ted Hampton
Assistant Vice President

Whitney Jones
Senior Associate

Nicole Johnson
Senior Vice President

Emily Raimes
Assistant Vice President

Nicholas Samuels
Assistant Vice President

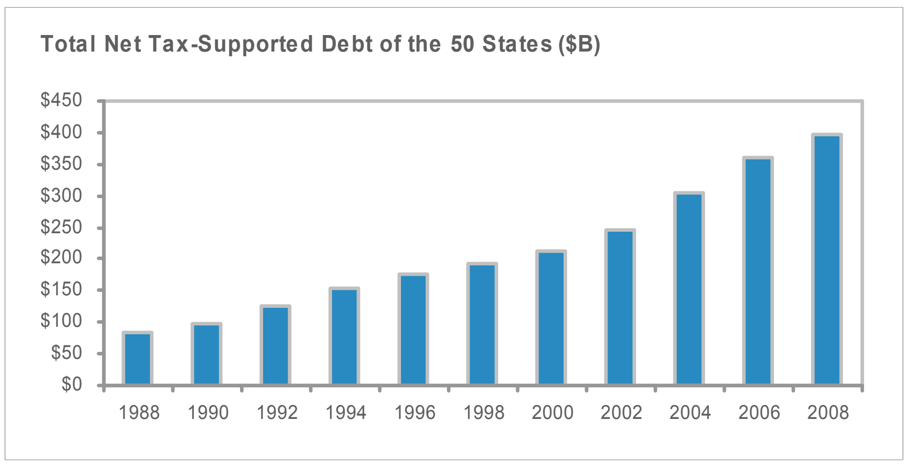
Mark Tenenhaus
Vice President

Robert Kurtter
Team Managing Director

Summary Opinion

State net tax-supported debt increased by 5.1% in 2007 to $398 billion (see Figure 1). A favorable interest rate environment, ongoing needs for infrastructure, and increased issuance by some states contributed to the overall increase. Median net tax-supported debt per capita increased by 12.9% to $889 from the 2007 median of $787, in part due to ramped up capital programs in several states. This increase was the third highest percentage increase since 1990. During the next year, debt issuance should continue to increase as the weak economy squeezes state budgets, resulting in a shift toward debt financing of capital projects, away from PAYGO funding.

Figure 1



Every year, Moody's prepares a special comment that presents an analysis of state debt medians. This special comment examines the condition of net state tax-supported debt as of 2007. Two measures of state debt burden – debt per capita and debt as a percentage of personal income – are commonly used by municipal analysts in making comparisons. Debt burden is one of many factors that Moody's uses to determine state credit quality. In considering debt burden, Moody's also examines gross debt, which includes contingent debt liabilities that may not have direct tax support but are included in audited state financial reports.

Growth in Net Tax-Supported Debt Continued in 2007

State tax-supported debt increased by 5.1% in 2007, the same rate of increase recorded in the previous year, to $398 billion. This $20 billion increase in outstanding net tax-supported debt is the third largest year-to-year increase in the past 20 years, surpassed only by the $44 billion and $35 billion annual increases recorded in 2003 and 2004. The current amount of state net tax-supported debt outstanding is also nearly twice as high as the outstanding amount at the beginning of the decade. The increased debt issued by the states during that period reflected a combination of factors, including low interest rates, increased use of debt to jump-start infrastructure development during a recessionary period and, in some cases, the need to cover revenue shortfalls.

States continued to address transportation and education capital needs through bond issuance during the course of 2007. Notable state transactions included $1.07 billion of capital improvement bonds issued by the Alabama Public School and College Authority, the largest sale in the state's history; New Jersey's $800 million of school facilities construction bonds and $1.18 billion of Transportation Trust Fund Authority revenue bonds; $2 billion of bonds issued by the Texas Transportation Commission for highway construction, some backed by the state's general obligation pledge and some by the state highway fund; and approximately $1.8 billion of new debt in Florida issued through various bonding programs to support of education.

Median Growth Reflects Significant Change in Debt Per Capita in Certain States

Median net tax-supported debt per capita increased by 12.9% to $889 (see Figure 2), only the third double-digit percentage increase in this measure since 1990 and the third highest increase during the same period. In contrast, the increase in this measure in 2006 over the prior year was 4.4%. While total net tax-supported debt increased at the same rate as in 2006, significant changes in debt burden among certain states pushed debt per capita upwards and resulted in a skewed distribution relative to the median. For example, Alabama issued approximately $1 billion of revenue bonds backed by certain taxes in the state's Education Trust Fund, which increased the net tax-supported debt for the state by roughly 50%. Additionally, Arkansas's net tax-supported debt increased by 29% after the state issued general obligation bonds partly for new higher education funding. Idaho and South Carolina experienced an increase of 125% and 53%, respectively, as a result of a change in classification of certain outstanding debts from gross tax-supported debt to net tax-supported debt for the first time.

Mean net tax-supported debt as a percent of personal income at 3.2% was unchanged from the prior year, compared to the 3.0% average for the 1995 to 2006 period (see Figure 3). Median net tax-supported debt as a percent of personal income in 2007 increased to 2.6%, up from 2.4% in the prior year.

2008 State Debt Medians

Figure 2

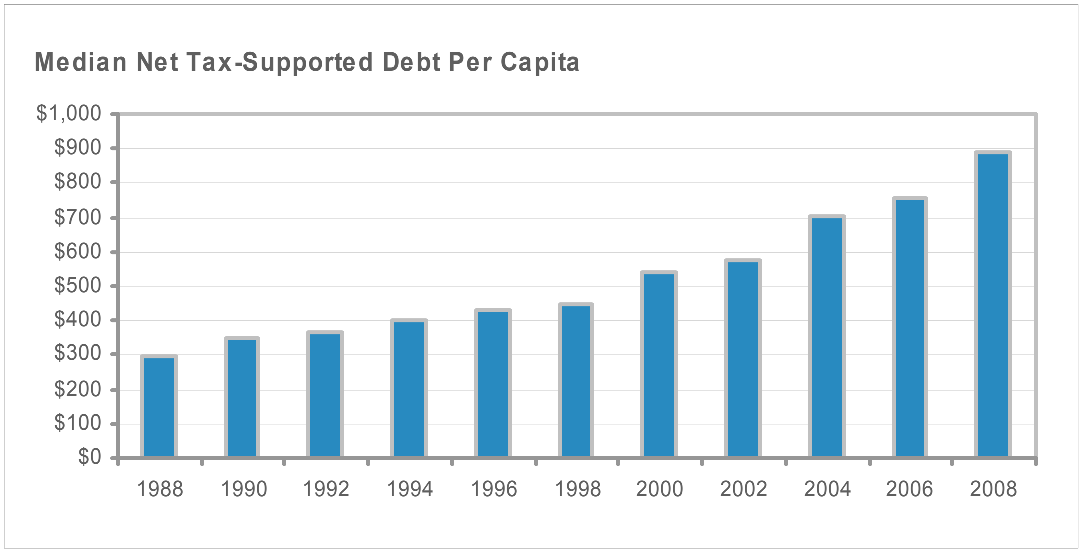
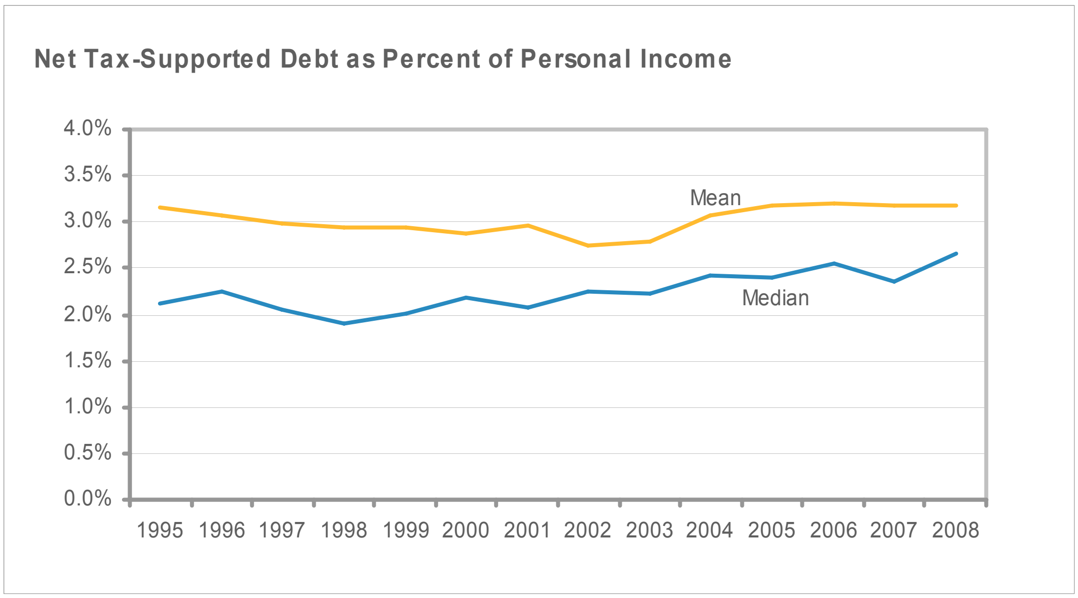


Figure 3



2008 State Debt Outlook: Debt Issuance Expected to Rise Reflecting Tighter Budgets and Infrastructure Needs

State debt issuance in 2008 is expected to be robust, as needs increase but resources decline. As the national economy falters, the need for social services expenditures will increase at the same time that many states look to trim their budgets. One solution will likely be to issue long-term debt where previously PAYGO capital had been used. In many states, the economic slowdown and the low interest rate environment may provide the impetus to accelerate authorized debt sales forward into this calendar year to spur economic activity and bolster employment. However, debt issuance for new capital projects may prove to be lower as a result of either inflationary factors or technical market considerations, as refinancings of auction-rate and variable-rate bonds put pressure on fixed rate interest costs.

2008 State Debt Medians

Table 1: Net Tax-Supported Debt Per Capita

		($)	Rating
1	Massachusetts	4,529	Aa2
2	Connecticut	3,698	Aa3
3	Hawaii	3,663	Aa2
4	New Jersey	3,478	Aa3
5	New York	2,762	Aa3
6	Delaware	2,002	Aaa
7	Illinois	1,985	Aa3
8	Washington	1,908	Aa1
9	Rhode Island	1,766	Aa3
10	California	1,685	A1
11	Oregon	1,636	Aa2
12	New Mexico	1,429	Aa1
13	Wisconsin	1,407	Aa3
14	Kentucky	1,381	Aa2*
15	Louisiana	1,345	A2
16	Maryland	1,297	Aaa
17	Mississippi	1,283	Aa3
18	Kansas	1,202	Aa1*
19	West Virginia	1,101	Aa3
20	Florida	1,005	Aa1
21	Ohio	966	Aa1
22	South Carolina	966	Aaa
23	Georgia	954	Aaa
24	Alaska	924	Aa2
25	North Carolina	898	Aaa
26	Minnesota	879	Aa1
27	Pennsylvania	870	Aa2
28	Alabama	869	Aa2
29	Virginia	764	Aaa
30	Nevada	759	Aa1
31	Michigan	748	Aa3
32	Vermont	707	Aaa
33	Missouri	675	Aaa
34	Arizona	630	Aa3*
35	Maine	618	Aa3
36	Utah	542	Aaa
37	New Hampshire	499	Aa2
38	Oklahoma	493	Aa3
39	Texas	481	Aa1
40	Indiana	478	Aa1*
41	Arkansas	477	Aa2
42	North Dakota	374	Aa2*
43	Montana	366	Aa2
44	Idaho	354	Aa2*
45	Colorado	315	NGO**
46	South Dakota	302	NGO**
47	Tennessee	221	Aa1
48	Iowa	98	Aa1*
49	Wyoming	91	NGO**
50	Nebraska	22	NGO**
	MEAN:	**1,158**	
	MEDIAN:	**889**	
	Puerto Rico	8,951***	Baa3

** Issuer Rating (No G.O. Debt)*
*** No General Obligation Debt*
**** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

Table 2: Net Tax-Supported Debt as a % of 2006 Personal Income

1	Hawaii	9.9%
2	Massachusetts	9.8%
3	New Jersey	7.5%
4	Connecticut	7.3%
5	New York	6.3%
6	Illinois	5.2%
7	Delaware	5.2%
8	Washington	5.1%
9	Oregon	5.0%
10	New Mexico	4.8%
11	Mississippi	4.8%
12	Kentucky	4.7%
13	Rhode Island	4.7%
14	Louisiana	4.3%
15	California	4.3%
16	Wisconsin	4.1%
17	West Virginia	3.9%
18	Kansas	3.5%
19	South Carolina	3.3%
20	Georgia	3.0%
21	Maryland	3.0%
22	Ohio	2.9%
23	North Carolina	2.8%
24	Florida	2.8%
25	Alabama	2.8%
26	Alaska	2.4%
27	Pennsylvania	2.4%
28	Minnesota	2.3%
29	Michigan	2.2%
30	Nevada	2.0%
31	Missouri	2.1%
32	Arizona	2.0%
33	Vermont	2.0%
34	Virginia	1.9%
35	Utah	1.9%
36	Maine	1.9%
37	Arkansas	1.7%
38	Oklahoma	1.5%
39	Indiana	1.5%
40	Texas	1.4%
41	New Hampshire	1.3%
42	Montana	1.2%
43	Idaho	1.2%
44	North Dakota	1.1%
45	South Dakota	0.9%
46	Colorado	0.8%
47	Tennessee	0.7%
48	Iowa	0.3%
49	Wyoming	0.2%
50	Nebraska	0.1%
	MEAN:	3.2%
	MEDIAN:	2.6%
	Puerto Rico**	63.8%

*** This figure is based on 2006 Personal Income. It is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

2008 State Debt Medians

Table 3: Total Net Tax Supported Debt (000's)

			Rating
1	California	61,584,000	A1
2	New York	53,298,000	Aa3
3	New Jersey	30,211,000	Aa3
4	Massachusetts	29,212,951	Aa2
5	Illinois	25,517,925	Aa3
6	Florida	18,339,600	Aa1
7	Connecticut	12,950,720	Aa3
8	Washington	12,342,191	Aa1
9	Texas	11,497,107	Aa1
10	Ohio	11,075,372	Aa1
11	Pennsylvania	10,817,000	Aa2
12	Georgia	9,104,530	Aaa
13	North Carolina	8,139,665	Aaa
14	Wisconsin	7,882,749	Aa3
15	Michigan	7,531,009	Aa3
16	Maryland	7,287,100	Aaa
17	Oregon	6,131,939	Aa2
18	Virginia	5,890,012	Aaa
19	Kentucky	5,857,451	Aa2*
20	Louisiana	5,774,788	A2
21	Hawaii	4,700,512	Aa2
22	Minnesota	4,569,476	Aa1
23	South Carolina	4,256,412	Aaa
24	Alabama	4,019,716	Aa2
25	Arizona	3,994,433	Aa3*
26	Missouri	3,968,072	Aaa
27	Mississippi	3,743,991	Aa3
28	Kansas	3,336,816	Aa1*
29	Indiana	3,032,167	Aa1*
30	New Mexico	2,815,537	Aa1
31	West Virginia	1,994,968	Aa3
32	Nevada	1,947,755	Aa1
33	Rhode Island	1,868,462	Aa3
34	Oklahoma	1,782,066	Aa3
35	Delaware	1,731,023	Aaa
36	Colorado	1,533,377	NGO**
37	Utah	1,434,138	Aaa
38	Tennessee	1,360,248	Aa1
39	Arkansas	1,351,860	Aa2
40	Maine	813,670	Aa3
41	New Hampshire	656,422	Aa2
42	Alaska	631,605	Aa2
43	Idaho	531,206	Aa2*
44	Vermont	438,997	Aaa
45	Montana	351,052	Aa2
46	Iowa	292,758	Aa1*
47	South Dakota	240,072	NGO**
48	North Dakota	239,132	Aa2*
49	Wyoming	47,785	NGO**
50	Nebraska	39,564	NGO**
	Totals	**398,168,401**	
	Puerto Rico	31,411,000***	Baa3

** Issuer Rating (No G.O. Debt)*
*** No General Obligation Debt*
**** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

Table 4: Gross Tax Supported Debt (000's)

			Gross to Net Ratio
1	California	68,918,000	1.12
2	New York	53,348,276	1.00
3	Massachusetts	35,574,265	1.22
4	New Jersey	35,349,000	1.17
5	Illinois	25,760,097	1.01
6	Michigan	22,577,509	3.00
7	Florida	22,467,700	1.23
8	Connecticut	20,578,099	1.59
9	Washington	19,232,391	1.56
10	Minnesota	15,427,696	3.38
11	Pennsylvania	14,828,000	1.37
12	Texas	14,810,450	1.29
13	Oregon	13,567,257	2.21
14	Wisconsin	11,228,739	1.42
15	Ohio	11,075,372	1.00
16	Virginia	10,103,019	1.72
17	Colorado	9,173,377	5.98
18	Georgia	9,104,530	1.00
19	Kentucky	8,172,677	1.40
20	North Carolina	8,139,665	1.00
21	Alabama	8,104,059	2.02
22	Maryland	7,287,100	1.00
23	Louisiana	6,756,800	1.17
24	Hawaii	6,230,841	1.33
25	Utah	6,098,050	4.25
26	South Carolina	5,375,796	1.26
27	Arkansas	4,764,645	3.52
28	Maine	4,687,296	5.76
29	Indiana	4,594,052	1.52
30	Tennessee	4,333,987	3.19
31	Arizona	4,214,123	1.05
32	Missouri	4,034,467	1.02
33	West Virginia	4,019,584	2.01
34	Alaska	3,759,669	5.95
35	Mississippi	3,743,991	1.00
36	New Mexico	3,708,461	1.32
37	Kansas	3,625,717	1.09
38	Delaware	3,127,439	1.81
39	Rhode Island	3,114,169	1.67
40	Nevada	2,893,240	1.49
41	Iowa	2,838,930	9.70
42	New Hampshire	1,966,801	3.00
43	Oklahoma	1,828,417	1.03
44	Idaho	1,165,716	2.19
45	Vermont	1,131,516	2.58
46	North Dakota	980,791	4.10
47	Montana	546,664	1.56
48	South Dakota	487,674	2.03
49	Nebraska	53,369	1.35
50	Wyoming	47,785	1.00
	Totals	**534,957,269**	**1.34**
	Puerto Rico	35,279,000 **	1.08

*** This figure is not included in any totals, averages, or median calculations but is provided for comparison purposes only.*

2008 State Debt Medians

Table 5: Net Tax-Supported Debt as a Percentage of Personal Income

	1998	1999	2000	2001	2002	2003	2002	2003	2004	2005	2006	2007	2008
Alabama	.7	1.5	2.3	2.2	2.2	2.2	2.2	2.2	2.0	2.0	2.2	2.0	2.8
Alaska	0.5	0.0	1.0	0.4	0.4	0.3	0.4	0.3	3.0	2.8	2.6	2.7	2.4
Arizona	1.9	1.9	1.6	1.6	1.9	2.1	1.9	2.1	2.3	2.6	2.2	2.0	2.0
Arkansas	0.8	0.6	0.9	1.2	1.2	1.4	1.2	1.4	1.8	1.6	1.6	1.4	1.7
California	2.6	2.6	2.4	2.5	2.5	2.5	2.5	2.5	3.2	4.7	4.6	4.4	4.3
Colorado	0.1	0.0	0.0	0.4	0.7	0.9	0.7	0.9	0.9	1.0	0.9	0.9	0.8
Connecticut	8.7	8.7	8.1	8.0	8.0	8.2	8.0	8.2	8.4	8.5	8.0	7.8	7.3
Delaware	5.9	5.7	5.2	5.5	5.3	5.0	5.3	5.0	5.6	5.5	5.3	5.5	5.2
Florida	3.4	3.5	3.4	3.3	3.4	3.5	3.4	3.5	3.5	3.4	3.2	3.1	2.8
Georgia	2.9	2.9	2.8	2.6	2.9	2.9	2.9	2.9	2.9	2.8	2.7	3.0	3.0
Hawaii	10.7	11.2	11.6	11.0	10.4	10.9	10.4	10.9	10.4	11.1	12.1	10.6	9.9
Idaho	0.2	0.4	0.4	0.3	0.4	0.3	0.4	0.3	0.5	0.6	0.6	0.6	1.2
Illinois	2.7	2.6	2.6	2.7	2.8	3.2	2.8	3.2	5.8	6.2	5.9	5.5	5.2
Indiana	0.8	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.3	1.4	1.6	2.1	1.5
Iowa	0.5	0.5	0.4	0.4	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.3	0.3
Kansas	1.7	2.0	2.4	3.1	3.0	3.0	3.0	3.0	3.3	4.0	3.8	3.7	3.5
Kentucky	3.9	3.7	3.5	4.4	4.3	4.4	4.3	4.4	4.4	4.0	4.5	4.3	4.7
Louisiana	2.6	2.6	2.4	2.5	2.4	2.7	2.4	2.7	2.6	2.4	3.1	4.9	4.3
Maine	1.9	1.9	2.1	2.0	1.9	1.8	1.9	1.8	1.8	2.2	2.0	1.9	1.9
Maryland	3.1	3.3	3.0	2.6	2.6	2.8	2.6	2.8	3.0	2.9	3.0	2.8	3.0
Massachusetts	7.8	7.8	8.0	8.5	8.5	8.5	8.5	8.5	8.5	8.5	9.8	9.4	9.8
Michigan	1.6	1.7	1.5	1.6	1.5	1.8	1.5	1.8	2.2	2.2	2.1	2.2	2.2
Minnesota	1.9	2.0	1.9	1.8	1.8	1.9	1.8	1.9	2.0	2.0	2.1	2.2	2.3
Mississippi	3.5	4.4	4.7	4.6	4.7	5.6	4.7	5.6	5.2	4.8	4.8	4.9	4.8
Missouri	1.0	1.0	1.0	1.1	1.3	1.3	1.3	1.3	1.6	1.5	1.6	1.9	2.1
Montana	1.4	1.7	1.7	1.7	1.6	1.4	1.6	1.4	1.3	1.1	1.4	1.5	1.2
Nebraska	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Nevada	1.6	1.8	1.8	1.8	1.7	1.4	1.7	1.4	2.0	2.0	2.2	1.7	2.0
New Hampshire	2.4	2.3	2.0	1.5	1.5	1.4	1.5	1.4	1.5	1.3	1.4	1.3	1.3
New Jersey	5.1	5.2	5.3	5.5	5.6	5.5	5.6	5.5	5.9	7.4	7.9	7.6	7.5
New Mexico	1.9	2.6	3.1	4.0	4.0	3.7	4.0	3.7	4.1	5.3	4.7	5.3	4.8
New York	6.5	6.6	6.4	6.2	5.9	5.9	5.9	5.9	6.7	7.2	6.7	6.7	6.3
North Carolina	1.0	1.2	1.4	1.4	1.4	1.6	1.4	1.6	2.0	2.5	2.8	2.4	2.8
North Dakota	0.8	0.6	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.6	1.2	1.0	1.1
Ohio	2.5	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.7	2.9	2.9	3.0	2.9
Oklahoma	0.8	1.2	1.3	1.4	1.3	1.2	1.3	1.2	1.2	1.2	1.4	1.5	1.5
Oregon	1.2	1.2	1.3	1.6	1.5	1.6	1.5	1.6	4.5	4.7	4.5	4.6	5.0
Pennsylvania	2.0	2.3	2.2	2.2	2.3	2.3	2.3	2.3	2.2	2.3	2.3	2.4	2.4
Rhode Island	6.6	6.5	6.2	5.3	5.2	5.0	5.2	5.0	4.4	4.3	4.1	4.6	4.7
South Carolina	1.6	1.6	1.6	1.8	2.5	2.4	2.5	2.4	2.4	2.2	2.5	2.3	3.3
South Dakota	1.5	1.5	1.5	1.2	0.9	0.7	0.9	0.7	0.9	0.9	0.7	0.8	0.9
Tennessee	0.9	1.0	1.0	1.2	0.9	0.8	0.9	0.8	0.8	0.7	0.8	0.7	0.7
Texas	1.4	1.3	1.2	1.0	0.9	0.9	0.9	0.9	0.8	1.0	1.0	1.3	1.4
Utah	3.1	3.6	3.3	2.8	3.0	2.9	3.0	2.9	3.5	3.2	2.7	2.3	1.9
Vermont	4.2	4.2	3.8	3.3	3.0	3.0	3.0	3.0	2.5	2.3	2.2	2.1	2.0
Virginia	2.1	2.0	2.1	1.9	1.8	1.7	1.8	1.7	1.7	1.8	1.7	1.8	1.9
Washington	4.8	4.6	4.6	4.4	4.4	4.8	4.4	4.8	4.9	4.9	4.9	5.1	5.1
West Virginia	2.8	3.4	3.3	4.2	4.0	4.1	4.0	4.1	3.6	4.6	4.4	3.9	3.9
Wisconsin	2.8	2.8	2.7	3.2	3.0	3.3	3.0	3.3	4.5	4.7	4.3	4.2	4.1
Wyoming	0.7	1.0	1.0	1.0	1.4	0.9	1.4	0.9	0.8	0.7	0.3	0.3	0.2
Median	**2.0**	**2.2**	**2.1**	**2.1**	**2.3**	**2.26**	**2.2**	**2.4**	**2.4**	**2.5**	**2.4**	**2.4**	**2.6**

Moody's Related Research

Special Comments

- U.S. State Governments – 2008 Sector Outlook, February 2008 (107409)
- U.S. States Credit Scorecard 2007, September 2007 (104389)
- Rating Changes for the 50 States from 1973 to Date, September 2007 (104631)

Rating Methodology

- Moody's State Rating Methodology, November 2004 (89335)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

2008 State Debt Medians

Report Number: 107917

Author	Senior Associate	Production Associate
Kimberly Lyons	Whitney Jones	Fabian Alvarez

Moody's Investors Service

Tax Supported
New Issue

State of Vermont

Ratings

General Obligation Bonds, 2007 Series E .... AA+
General Obligation Refunding Bonds, 2007 Series F .... AA+
Rating Outlook .... Stable

Analysts

Kenneth T. Weinstein
+1 212 908-0571
ken.weinstein@fitchratings.com

Richard J. Raphael
+1 212 908-0506
richard.raphael@fitchratings.com

Issuer Contact

Jeb Spaulding
State Treasurer
+1 802 828-2301

New Issue Details

$11,000,000 General Obligation Bonds, 2007 Series E (Vermont Citizen Bonds), are expected to be offered to Vermont retail investors on Dec. 12 via negotiation through Citigroup Global Markets. The 2007 series E bonds are expected to mature July 15, 2008–2017. Additionally, approximately $27,000,000 General Obligation Refunding Bonds, 2007 Series F, are expected to sell on Dec. 12 via negotiation through UBS Investment Bank. The 2007 series F bonds are expected to mature July 15, 2008–2013.

Security: The bonds are general obligations of the state of Vermont, backed by its full faith and credit pledge.

■ Outlook

The state of Vermont's 'AA+' rating and Stable Rating Outlook reflect its steady economy and continued conservative debt and budget planning. The relatively narrow state economy is supported by larger-than-average manufacturing (albeit less so than in the past), tourism, and health and educational services sector employment. Outstanding debt, which consists almost entirely of general obligation (GO) bonds that mature rapidly, has declined and now approaches low levels. Vermont has a diverse revenue stream, including a state property tax for education, and conservative budgeting and rapid responses to changing conditions earlier this decade enabled the state to maintain its balances. Reserves, as of the close of fiscal 2007, in each major operating fund are at full funding at 5% of prior-year appropriations. Challenges include the need to address continued education and Medicaid spending pressures, as well as to attract jobs and a younger work force.

■ Rating Comment

The 2007 series E bonds offered to Vermont's retail investors follow the state's $35 million 2007 series D GO debt issued last month. The 2007 series F bonds will be used to refinance outstanding bonds for debt service savings. As mentioned above, virtually all of Vermont's debt consists of GO bonds that amortize rapidly. As of June 30, 2007, net tax-supported debt of $438 million, equaling $705 per capita and 2% of revised 2006 personal income, rests comfortably in the lower moderate range. Debt has declined since the 1990s as a result of debt affordability recommendations; debt levels are now expected to remain stable. Vermont's pension systems remain well funded, and the state has acted to improve funding levels for the teacher's retirement system.

Vermont's relatively small but stable economy is centered on health and educational services and tourism, although manufacturing remains important. The state lost less than 1% of its jobs during the recession earlier this decade; by 2004, it exceeded its pre-recession annual employment peak, in sharp contrast to the steep and protracted recession of the early 1990s. Job growth between 2004 and 2006 was below average at less than 1% annually. October 2007 jobs data showed 0.4% growth from the prior year's level, with the most significant growth occurring in the education/health and professional/business service sectors. Manufacturing sector employment, led by an IBM facility near Burlington, still exceeds the national level on a percentage basis, although both employment and personal income reliance on this sector has dropped in recent years. State unemployment has historically been and remains comfortably below the national level, although the October 2007 rate of 4.3% is slightly above the 3.7% level reported one year earlier. Vermont remains challenged by the aging of its population; its median age of 40.7 years is well above the national 36.4 years and exceeded only by Maine's. Revised 2006 per capita personal income totaled $34,623, ranking Vermont 23rd among the states.

Conservative practices and well-stocked reserves sustained healthy finances during the recent recession, with the state using some reserves and reducing appropriations in fiscal years 2002 and 2003, when revenues softened. Operations have subsequently been favorable, and reserves were restored to their maximum level by fiscal year-end 2004. Surpluses in fiscal years 2004–2006 were largely used for reserves, additional pension contributions, and carryovers into the next fiscal year. Fiscal 2007 ended with a $31 million general fund surplus. The state's personal and corporate income tax receipts outperformed estimates, while sales and use tax receipts came in nearly 3.4% below estimates. Fiscal 2008 revenues through October 2007, which reflect a one-time adjustment for certain jet fuel tax revenues, were 1.9% above projections, again led by stronger-than-anticipated personal and corporate income tax receipts. The state's meals and rooms tax also performed above expectations. Education and Medicaid spending continues to dominate state general fund expenditures.

For more information, see Fitch Research on "State of Vermont," dated Feb. 12, 2007, available on Fitch's web site at www.fitchratings.com.

New Issue: Vermont (State of)

MOODY'S ASSIGNS Aaa TO VERMONT'S GENERAL OBLIGATION BONDS SERIES 2007E AND GENERAL OBLIGATION REFUNDING BONDS SERIES 2007F

TOTAL GO DEBT AFFECTED APPROXIMATELY $486 MILLION

State
VT

Moody's Rating

ISSUE		RATING
State of Vermont General Obligation Bonds 2007 Series E		Aaa
Sale Amount	$11,000,000	
Expected Sale Date	12/12/07	
Rating Description	General Obligation	
State of Vermont General Obligation Refunding Bonds 2007 Series F		Aaa
Sale Amount	$30,000,000	
Expected Sale Date	12/12/07	
Rating Description	General Obligation	

Opinion

NEW YORK, Dec 13, 2007 -- Moody's Investors Service has assigned a rating of Aaa and stable outlook to the State of Vermont's general obligation bonds. Moody's highest rating level incorporates Vermont's strong history of financial management, evident in the state's maintenance of healthy reserve levels; manageable debt profile that reflects the state's focused efforts to reduce its debt ratios and maintain well-funded pension systems; and a stable, diversifying economy that lacks the kind of volatility that can make revenues swing dramatically up or down and increase financial uncertainty. The outlook on Vermont's general obligation bond rating is stable reflecting Moody's expectations for sustainable growth in the state's revenue sources, maintenance of solid operating reserve balances, and manageable debt levels. We expect that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

Vermont plans to sell $11 million General Obligation Series 2007E and $28.3 million of General Obligation Refunding Bonds Series 2007F. Proceeds will be used for a variety of capital projects of the state.

Credit strengths are:

*Sound financial management and fiscal policies indicated by conservative budgeting practices.

*Prompt action to reduce spending following revenue weakening during recession.

*Relatively rapid restoration of reserves used during periods of revenue weakness.

*Steady progress in reducing previously high debt ratios and maintaining an affordable debt profile.

*Low unemployment rates.

Credit Challenges are:

*Slower job growth moderates revenue performance.

*Still prominent manufacturing sector that has not recovered jobs lost during recession.

*Despite gains, Vermont's per capita income levels remain below the national average.

*Potential service pressures due to a population that is aging at a relatively rapid pace.

STRUCTURAL BUDGET BALANCE REFLECTS SOUND FINANCIAL MANAGEMENT

Vermont was well-positioned to weather the 2002 and 2003 recession as a result of its conservative budgeting practices, available reserves, and prompt action to control spending. As the economy and state revenues weakened in fiscal 2002, the state's personal income taxes (Vermont's largest revenue source in the General Fund) dropped 10%, while sales and use taxes were essentially flat.

Vermont's General Fund revenues recovered relatively quickly from the recession, aided by prompt bipartisan willingness to restore budget balance. Vermont began early restoration of its reserves in fiscal 2003, bringing its General Fund BSR to the full statutorily required level of 5% of prior year budgetary appropriations by year-end fiscal 2004, a level that has been maintained since then as indicated in audited results through fiscal year 2006 and in preliminary unaudited results for fiscal year 2007. Vermont also maintains a fully funded Transportation Fund BSR, also at 5% of prior year appropriations, and one in its Education Fund at the statutory required level of 3.5% to 5% of prior year expenditures, excluding General Fund transfers. A Human Services Caseload Reserve, which is available for unexpected caseload growth due to the economy, adds another layer of flexibility in the event of revenue fluctuation. Vermont used a portion of this reserve to fund its Medicare Part D expenses and repaid the amount with a subsequent federal reimbursement. Combined available operating reserves have averaged about 7% of operating revenues over the past five years, excluding the caseload reserve, and remained at or above 5.8% over that period.

Vermont's management strength has improved with the now timely publication of its financial audits. In earlier years financial reporting was delayed during the extended implementation of a new software system.

HEALTHY REVENUE GROWTH IN FISCAL 2007; SLOWING IN FISCAL 2008 AS EXPECTED

Revenue growth moderated in fiscal year 2007, with 3.6% growth in General Fund revenues compared with 7.4% growth in fiscal year 2006. Personal income tax growth was the main driver, increasing 4.5%. An unexpected strong showing in corporate income taxes also gave revenues a boost. Sales tax revenues were the largest underperformer, coming in under forecast by about $3.6 million. The drop in sales tax revenue is associated with costs of implementing the multi-state Streamlined Sales Tax Agreement (SSTA). The SSTA is a multi-state effort to simplify and streamline sales and use taxes in order to facilitate the collection of such taxes from out-of-state vendors such as mail order and internet retailers.

Vermont publishes a consensus revenue forecast twice a year and the most recent forecast (July 2007) indicates modest General Fund revenue growth of 1.6% for fiscal year 2008, in line with net positive but slower expected job gains. Year to date revenues for fiscal 2008 are above forecast by 1.9%, propelled by strong personal income taxes, corporate income taxes and the meals and room tax. Going forward, the revenue forecast for fiscal year 2009 is 2.4%. The budget increase is in line with projected job growth that is slower than the national pace, as it has been in recent years, but sustainable.

For the fifth consecutive year in a row, Vermont expects its Budget Stabilization Reserves (BSR) in the General and Transportation Funds to remain fully funded at statutory levels at the end of fiscal 2008. The Education Fund BSR is also expected to end at the maximum statutorily required level.

JOBS EXPECTED TO GROW AT SUSTAINABLE PACE

Continuous job growth in education and health services, Vermont's largest employment sector, along with healthy job gains in the professional and business services sector, have helped offset persistent weakness in manufacturing. For 2007, Vermont's average annual year-over-year job growth has been positive for almost all employment sectors. Year to date employment numbers for September 2007 show a continued trend. The state's unemployment level is low compared to the nation at 4.3% (4.7% U.S.) Vermont's job growth will likely maintain a below average but sustainable pace, reflecting modest net in-migration and slow population growth. As a result, unemployment levels should remain low.

DEBT RATIOS DECLINE; MODEST ISSUANCE PLANNED

Vermont's debt levels have declined considerably over the past decade and are now about average relative to Moody's 50-state median, on both a per capita and personal income basis. Debt per capita of $706, compared to the state median of $787, ranked Vermont 28th among the fifty states in Moody's 2007 state debt medians. Debt to total personal income of 2.1%, compared to the 2.4% state median, ranked Vermont 30th. Both ratios represent steady improvement in Vermont's debt profile, reflecting efforts by the state's Capital Debt Affordability Advisory Committee which oversees long-term capital planning for the state. The state's debt authorization levels have dropped steadily over the past decade. The fiscal 2008 amount recommended by the advisory committee for legislative authorization is 20% lower than the level authorized in 1995.

Vermont's overall pension funding levels are strong relative to other states. The state employees system has a funding level of 100%. While the teachers' system is lower, at about 85%, the level reflects a recent revision to the state's funding method that brings it in line with other state systems. The method change in 2006 had the effect of reducing the teachers' system pension funding from the prior level about 91%. At the same time, the state committed to full annual funding requirements which had previously been low due to the appearance of higher funded levels. Vermont recently completed its assessment of its other post employment benefit (OPEB) liability which totaled about $1.4 billion. Under a pre-funding assumption, the liability drops to about $688 million.

Outlook

The stable outlook on Vermont's general obligation bond rating incorporates Moody's expectations for continued growth in the state's primary revenue sources and maintenance of strong reserve balances and manageable debt levels. We believe that Vermont will continue to demonstrate the willingness and ability to respond with budget adjustments as needed to maintain budget balance.

What could make the rating go - DOWN

*Deterioration in the state's financial performance.

*Weakened reserve levels.

*Increasing debt ratios relative to Moody's 50-state median.

*Economic weakness resulting in persistent revenue underperformance.

Analysts

Kimberly Lyons
Analyst
Public Finance Group
Moody's Investors Service

Nicole Johnson
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

---

between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Special Comment

Moody's
U.S. Public Finance

July 2008

Table of Contents:

Analyst Contacts:

New York 1.212.553.1653

Edith Behr 1.212.553.0566
Vice President/Senior Credit Officer

Maria Coritsidis 1.212.553.4173
Assistant Vice President/Analyst

Ted Hampton 1.212.553.2741
Assistant Vice President/Analyst

Whitney Jones 1.212.553.7488
Senior Associate

Nicole Johnson 1.212.553.4573
Senior Vice President

Kimberly Lyons 1.212.553.4673
Associate Analyst

Emily Raimes 1.212.553.7203
Assistant Vice President/Analyst

Nicholas Samuels 1.212.553.7121
Assistant Vice President/Analyst

Mark Tenenhaus 1.212.553.0849
Vice President/Senior Analyst

Robert Kurtter 1.212.553.4453
Team Managing Director

U.S. States Credit Scorecard 2008

Quantitative Results Presented for 2008 With Comparisons to 2007

Summary

The 2008 Moody's U.S. States Credit Scorecard is the third annual publication of a quantitative analytic tool that enhances the consistency of our state general obligation (G.O.) credit analysis. As noted in previous scorecard reports, the fundamental approach to rating state debt, outlined in Moody's State Rating Methodology (November 2004) remains unchanged. The updated scorecard reflects and supports the fundamental methodology, by comparing select data points and other variables for the four main factors utilized in our state credit analysis: economy, debt, finances, and governance framework. Use of the scorecard aids in the identification of important statistical trends within the state sector and also helps preserve consistency regarding the statistical aspects of our analysis.

- The scorecard provides clear relative rankings of the 50 states on the most important statistical variables included in Moody's credit analysis of state governments.
- The quantitative data and rankings are used in the rating process to enhance state comparative analysis and identify sector trends.
- Variables related to states' financial best practices and measures of institutional financial flexibility are incorporated in the scorecard. These have been updated to reflect any changes in governance framework since our last report.

The scorecard results have limitations in that they are backward-looking, using only historical data. The results are used to inform the rating process but not to determine Moody's G.O. rating assignments.

Moody's Investors Service

U.S. States Credit Scorecard 2008

This report provides the 2008 scorecard results, repeats the 2007 results and reviews the scorecard description, including the individual variables (see Appendix A). The 2008 scorecard results reflect data from the most recent fiscal year (FY07, ended 6/30/07 for most states) in which consistent data for all states are available. In the appendices, we present the 2007 and 2008 ranking results, as well as median and range information for the underlying statistical data in both years.

The scorecard is not meant to be a substitute for rating committee judgments regarding ultimate credit quality and G.O. bond ratings for the individual states, nor is it meant to be a matrix for automatically assigning or changing ratings. Moody's state ratings are forward-looking opinions of relative financial strength, with an emphasis on the management of financial results within the constraints of a state's governance framework. Included in the rating is our assessment of the expected willingness of state leadership to preserve a strong financial profile in the future, recognizing that all states face inevitable cyclical economic downturns as well as persistent constituent demands in excess of available fiscal resources. The willingness to make these difficult decisions is ultimately a matter of judgment, which we believe transcends the output or results of any strictly quantitative tool or approach. Moreover, the limited number of variables included in the scorecard cannot fully capture the breadth and depth of our fundamental credit analysis. Nevertheless, the historical performance statistics captured in the scorecard are important and, in general, higher ratings can be expected among the states with the highest statistical scores and rankings from the scorecard.

The 2008 Scorecard Results: 14 States Change Tiers; State Financial Data Show Overall Stability Reflecting Fiscal Year 2007 Results

The 2008 scorecard reflects audited financial information through fiscal year-end 2007, a period of continued economic gains. This contributed to overall healthy tax revenue growth, stable financial operations, and a continuing trend of building reserve positions. Due to the backward-looking nature of the scorecard, the data do not incorporate the revenue fall-off triggered by the housing downturn that began last year. Given the overall stability of state credits as a class and the relative nature of the set of measures used in the scorecard, similar year to year tier movement is not unexpected. The 2008 results bear this out, with 7 states showing tier movement up and 7 moving down compared with the 2006 and 2007 scorecards in which 14 states also had tier movements relative to the prior year. Appendix B shows a comparison of overall tier rankings in 2007 and 2008 and highlights the states that had tier movement. Appendix C further breaks out the tier changes by category - i.e. Finances, Economy, Debt, and Governance Framework. Appendix D provides median data for each of the variables as reported in the 2007 and 2008 scorecards, primarily reflecting 2006 and 2007 data.

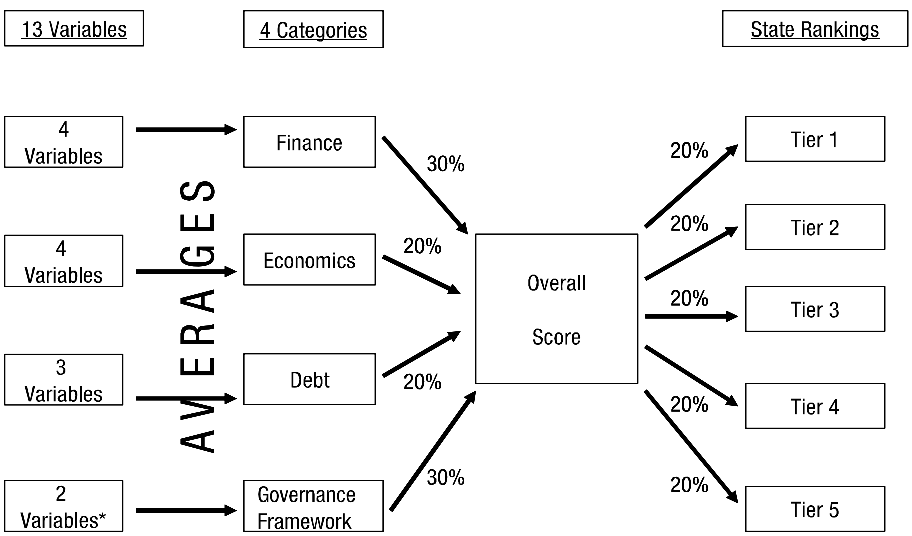
State	2008 Scorecard Tier	2007 to 2008 Scorecard Tier Change
Alabama	3	Declined from tier 2
Alaska	2	Improved from tier 3
Arizona	5	Declined from tier 4
Arkansas	3	Improved from tier 4
Connecticut	4	Declined from tier 3
Idaho	2	Declined from tier 1
Louisiana	4	Improved from tier 5
Maine	4	Improved from tier 5
Massachusetts	5	Declined from tier 4
Michigan	5	Declined from tier 4
New York	4	Improved from tier 5
Pennsylvania	3	Improved from tier 4
Washington	1	Improved from tier 2
West Virginia	4	Declined from tier 3

U.S. States Credit Scorecard 2008

Scorecard Reflects Moody's State Rating Methodology; State Rankings and Trends Influence but Do Not Determine Rating

The states scorecard was developed to reflect and support Moody's fundamental approach to rating state governments, by assembling and comparing select data points and other variables in the areas of economy, debt, finances, and governance framework, the four main areas of our state analyses. The approach generates relative rankings of the 50 states on each of 13 variables (described in the Appendix), averages them by factor or category, and then generates an overall ranking by weighting each of the four factors. As discussed in our 2004 methodology report, the finances and governance framework categories are weighted more heavily relative to the economy and debt categories.

The resulting overall rankings are finally grouped into quintiles that represent relative "tiers" of performance on the scorecard. This approach helps separate changes in relative position over time from general changes affecting the entire class of state credits. Moody's maintains G.O. or equivalent ratings on 46 states, 44 of which are in the Aa and Aaa categories. However, a strong upward or downward tier movement, especially if sustained over time, could be an indicator of a meaningful change in relative performance, and could warrant re-examination of a state's G.O. rating.



** Each composed of several sub-variables*

It is important to note the limitations of the scorecard, including the fact that it is retrospective, only providing a backward look at a state's performance. For example, financial data are from the fiscal 2007 audits which ended June 30, 2007 for most states, while they are currently engaged in or have recently completed the adoption of their fiscal 2009 budgets. In addition, economic and debt trends are assessed on a five or ten-year trend reflecting past performance. By comparison, Moody's state G.O. ratings are forward-looking opinions of relative financial strength, with an emphasis on the quality of a state's governance framework. These latter variables in particular capture only a portion of the governance framework analysis that is included in Moody's G.O. rating opinions. While backward-looking, the historical performance statistics captured on the scorecard are important and, in general, higher ratings can be expected among the states with the highest statistical scores and rankings from the scorecard. However, there is no rule that a particularly high or low scorecard ranking, even if it persists over time, will necessarily have implications for a state's bond rating.

While the 13 variables have not changed from the 2007 scorecard, Moody's does expect to refine the scorecard in the future to include new data and variables as they become available, such as other post employment benefits (OPEB) liabilities. Other changes or refinements could also be made over time, if appropriate.

U.S. States Credit Scorecard 2008

States Scorecard's Financial, Economic, Debt and Governance Framework Variables*

Finance Variables

1. Five-Year Average Fund Balance Ratio
2. Five-Year Tax Revenue Growth
3. Five-Year Expenditure Growth
4. Borrowing for Operations
   a. Short-term cash-flow borrowing for any of the past two years
   b. Long-term borrowing for budget purposes in the most recent fiscal year
   c. Long-term borrowing for budget purposes in any of the three prior fiscal years

Debt Variables

1. 10-Year Growth in Net Tax-Supported Debt as % of State Personal Income
2. Net Tax-Supported Debt as % of State Tax Revenues
3. State Pension Funding Ratio

Economic Variables

1. 10-Year Growth in State Per-Capita Income as % of US Average
2. Five-Year State Employment Growth
3. Five-Year Domestic Net Migration as % of US Total
4. State Poverty Rate

Governance Framework

1. Institutional Financial Flexibility - presence of each of the following either detracts from or enhances the score on this variable:
   a. Inflexible spending mandates and/or revenue restrictions in state constitution.
   b. Voter initiative/referendum process in state constitution.
   c. Super-majority requirement for budget passage or tax increases.
   d. Timely budget adoption.
2. Fiscal Best Practices - presence of each of the following enhances the score on this variable:
   a. Consensus revenue forecasting process.
   b. Multi-year financial planning oriented around structural budget balance.
   c. Executive branch legal power to make mid-year spending adjustments without legislative approval.
   d. Regular and effective debt affordability analysis.
   e. Timely GAAP-basis audited financial reporting.

See Appendix for detailed description of variables.

Appendix A: Detailed Description of Variables

Financial Variables

1. Five-Year Average Fund Balance Ratio

The most recent five-year average of the ratio of Unrestricted Fund Balance plus Available Reserves to Operating Revenues. The data are for the state's primary operating funds, on a GAAP basis, as reported in Moody's Financial Ratio Analysis (MFRA.)

2. Five-Year Tax Revenue Growth

The most recent five-year total growth in state tax revenues. The data are for the state's primary operating funds, on a GAAP basis, as reported in Moody's MFRA.

3. Five-Year Expenditure Growth

The most recent five-year total growth in state operating expenditures. The data are for all governmental funds (including federal special revenue funds), on a GAAP basis.

4. Borrowing for Operations

This variable is an amalgamation of three yes/no questions: (i) Has the state incurred short-term cash-flow borrowing in any of the past two years? (ii) Has the state incurred long-term borrowing for operating budget purposes in the most recent fiscal year? (iii) Has the state incurred long-term borrowing for operating budget purposes in any of the three prior fiscal years? The scoring for this variable is relatively more sensitive to question (ii), as this is an indicator of current structural budget imbalance pressure in addition to the recent incurrence of long-term deficit-related debt. State rankings for this variable are generated in a manner that is proportionally consistent with the 1 to 50 rankings used for other variables.

Debt Variables

1. Ten-Year Growth in Net Tax-Supported Debt as % of State Personal Income

A measure of the growth of the state's debt over the past 10 years relative to the state's economic base, as measured by total state personal income. Each state's net tax-supported debt data are compiled annually by Moody's and published in our annual State Debt Medians Report. The last five years' of debt data and debt as a percent of personal income are also reported in Moody's MFRA.

2. Net Tax Supported Debt as % of State Tax Revenues

A current measure of state tax-supported indebtedness, relative to the current tax revenue base of the state's operating funds. Both data points are reported in Moody's MFRA.

3. State Pension Funding Ratio

The most recently reported ratio of state defined benefit pension system assets (on an actuarial valuation basis) as a percent of the present value of actuarial accrued liabilities. If the state is involved in the funding of multiple defined benefit systems, a combined funding ratio is used. The data are collected by Moody's from publicly-available sources. The scorecard rankings are based on the most recent year for which a great majority of states have reported data – for example, the 2008 scorecard ranks pension funding data predominantly reported as of 2006. Despite the effort to ensure reporting period comparability, the use of differing actuarial methods and assumptions by the states may still limit the true comparability of the data.

Economic Variables

1. Ten-Year Growth in State Per-Capita Income as % of US Average

The most recent 10-year growth in the ratio of state per-capita income to U.S. per-capita income. The data are on a calendar year basis, as reported by the U.S. Bureau of Economic Analysis.

2. Five-Year State Employment Growth

The most recent five-year total growth in the state's total payroll employment (both private sector and government sector), as reported by the U.S. Bureau of Labor Statistics. The data are on a calendar-year average basis, and are not seasonally adjusted.

3. Five-Year Domestic Net Migration as % of US Total

The state's most recent five-year total net domestic migration, as reported by the U.S. Census Bureau, as a percentage of total net U.S. domestic migration over the same period. It is an indicator of the relative attractiveness of the state's economy, and is naturally skewed by absolute size of the economies in question. The largest states will typically be at either the top end (e.g. Florida) or the bottom end (e.g. NY) of this ranking. Foreign migration, which can also be a positive state economic indicator, is not included in this measure.

4. State Poverty Rate

The current percentage of the state's population living in households with income below the national poverty level, as defined and reported by the U.S. Census Bureau. The data are for the most recent year reported by the Census Bureau (i.e. 2006 data in the 2008 scorecard), and is currently reported in MFRA.

Governance Framework Variables

1. Institutional Financial Flexibility

This variable is an amalgam of four yes/no questions:

a. Inflexible spending mandates and/or revenue limits – does the state constitution contain (i) one or more significant and inflexible minimum spending mandates, or (ii) an inflexible limitation on overall revenue collection and/or requirement to refund "excess" revenues?

b. Voter initiatives and referenda – does the state constitution authorize a process of voter initiative and/or referenda which has in the past led to significant fiscal policy uncertainties?

c. Super-majority requirements - does the state constitution require greater than majority approval of legislators for adoption of the budget and/or for raising new revenues?

d. Timely budget adoption – has the state, on more than one occasion over the past five years, passed its budget later than one month after the start of the fiscal year or had a budget delay of any length that resulted in a partial or full state government shutdown?

2. Fiscal Best Practices

This variable is an amalgam of five yes/no questions:

a. Consensus revenue forecasting - does the state adhere to an institutionalized consensus revenue estimating process, supported by nonpartisan and objective economic analysis?

b. Multi-year financial planning - does the state regularly publish multi-year financial plans, including out-year analysis of revenue and spending forecasts?

c. Executive branch mid-year spending reduction powers – does the executive branch have the legal power to make mid-year spending reductions, without need for legislative approval, and is this authority supported by strong budget monitoring and control processes?

d. Debt affordability analysis - does the state regularly publish a debt affordability analysis that effectively informs capital budgets and legislative debt authorization decisions?

e. Timely audited financial reporting – for each of the past two fiscal years, has the state published its audited, GAAP basis financial statements within nine months of the fiscal year-end?

U.S. States Credit Scorecard 2008

Appendix B: 2007 and 2008 Overall Scorecard Rankings

(states listed alphabetically by quintile)

	2007	Rating as of Aug. '07	2008	Current Rating
Tier 1	Delaware	Aaa	Delaware	Aaa
	Florida	Aa1	Florida	Aa1
	Idaho	Aa2	Maryland	Aaa
	Maryland	Aaa	Nebraska	-
	Nebraska	-	North Dakota	Aa2
	North Dakota	Aa2	Utah	Aaa
	Utah	Aaa	Vermont	Aaa
	Vermont	Aaa	Virginia	Aaa
	Virginia	Aaa	Washington ↑	Aa1
	Wyoming	-	Wyoming	-
Tier 2	Alabama	Aa2	Alaska ↑	Aa2
	Georgia	Aaa	Georgia	Aaa
	Indiana	Aa1	Idaho ↓	Aa2
	Iowa	Aa1	Indiana	Aa1
	Minnesota	Aa1	Iowa	Aa1
	Montana	Aa2	Minnesota	Aa1
	Nevada	Aa1	Montana	Aa2
	South Carolina	Aaa	Nevada	Aa1
	Tennessee	Aa1	South Carolina	Aaa
	Washington	Aa1	Tennessee	Aa1
Tier 3	Alaska	Aa2	Alabama ↓	Aa2
	Connecticut	Aa3	Arkansas ↑	Aa2
	Hawaii	Aa2	Hawaii	Aa2
	Kansas	Aa1	Kansas	Aa1
	New Hampshire	Aa2	New Hampshire	Aa2
	North Carolina	Aaa	North Carolina	Aaa
	Rhode Island	Aa3	Pennsylvania ↑	Aa2
	South Dakota	-	Rhode Island	Aa3
	Texas	Aa1	South Dakota*	-
	West Virginia	Aa3	Texas	Aa1
Tier 4	Arizona	Aa3	Colorado	-
	Arkansas	Aa2	Connecticut ↓	Aa3
	Colorado	-	Louisiana ↑	A1
	Massachusetts	Aa2	Maine ↑	Aa3
	Michigan	Aa3	Missouri	Aaa
	Missouri	Aaa	New Mexico*	Aa1
	New Mexico	Aa1	New York ↑	Aa3
	Oklahoma	Aa3	Oklahoma	Aa3
	Oregon	Aa2	Oregon	Aa2
	Pennsylvania	Aa2	West Virginia ↓	Aa3
Tier 5	California	A1	Arizona ↓	Aa3
	Illinois	Aa3	California	A1
	Kentucky	Aa2	Illinois*	Aa3
	Louisiana	A2	Kentucky	Aa2
	Maine	Aa3	Massachusetts ↓	Aa2
	Mississippi	Aa3	Michigan ↓	Aa3
	New Jersey	Aa3	Mississippi	Aa3
	New York	Aa3	New Jersey	Aa3
	Ohio	Aa1	Ohio	Aa1
	Wisconsin	Aa3	Wisconsin	Aa3

↑ Upward tier movement
↓ Downward tier movement

** New Mexico, Illinois, and South Dakota have not yet released GAAP financial audits for fiscal 2007. As a result, some of their financial measures are not comparable with those of the other states.*

Appendix C: 2007 and 2008 Scorecard Rankings by Categories

(states listed alphabetically by quintile)

	FINANCIAL RANKING		ECONOMIC RANKING		DEBT RANKING		GOVERNANCE RANKING	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Tier 1	Alabama	Alaska	Arizona	Colorado ↑	Delaware	Delaware	Delaware	Delaware
	Alaska	Arizona ↑	Delaware	Florida	Idaho	Florida ↑	Illinois	Indiana
	Delaware	Arkansas ↑	Florida	Idaho	Iowa	Iowa	Indiana	Kansas
	Florida	Delaware	Idaho	Montana	Montana	Minnesota ↑	Kansas	Maryland
	Hawaii	Florida	Montana	Nevada	Nebraska	Nebraska	Maryland	Nevada ↑
	Maryland	Hawaii	Nevada	Texas	South Dakota	South Dakota	North Carolina	North Carolina
	Montana	Montana	Texas	Utah ↑	Tennessee	Tennessee	Rhode Island	Rhode Island
	Nebraska	Nebraska	Virgina	Virginia	Texas	Utah ↑	South Carolina	South Carolina
	North Dakota	North Dakota	Washington	Washington	Vermont	Vermont	Utah	Utah
	Virginia	Oklahoma↑	Wyoming	Wyoming	Wyoming	Wyoming	Virginia	Virginia
Tier 2	Arizona	Alabama ↓	Colorado	Arizona ↓	Arizona	Arkansas ↑	Florida	Florida
	Arkansas	Georgia	Hawaii	Delaware ↓	Florida	Georgia	Iowa	Georgia ↑
	Connecticut	Idaho	Maryland	Hawaii	Georgia	Idaho ↓	Massachusetts	Iowa
	Georgia	Maryland ↓	New Hampshire	Maryland	Maine	Indiana ↑	Michigan	Massachusetts
	Idaho	Missouri	New Mexico	New Hampshire	Maryland	Montana ↓	Minnesota	Michigan
	Missouri	Pennsylvania ↑	North Dakota	New Mexico	Minnesota	New Hampshire	Nevada	Minnesota
	Oklahoma	Utah ↑	Oklahoma	North Dakota	New Hampshire	New York ↑	Vermont	Vermont
	Vermont	Virginia ↓	South Dakota	Oklahoma	North Carolina	North Dakota	Washington	Washington
	Washington	Washington	Utah	South Carolina ↑	North Dakota	Pennsylvania ↑	West Virginia	West Virginia
	West Virginia	Wyoming ↑	Vermont	Vermont	Utah	Texas ↓	Wyoming	Wyoming
Tier 3	Indiana	Kansas	Alabama	Alabama	Alabama	Arizona ↓	Connecticut	Alabama ↑
	Kansas	Louisiana ↑	Alaska	Alaska	Arkansas	Colorado	Georgia	Alaska ↑
	Massachusetts	Minnesota ↑	Arkansas	Arkansas	Colorado	Maine ↓	Hawaii	Connecticut
	Nevada	Nevada	Georgia	Connecticut ↑	Indiana	Maryland ↓	Louisiana	Hawaii
	New Mexico	New Mexico*	Minnesota	Georgia	Michigan	Michigan	Maine	Illinois ↓
	Ohio	New York ↑	New Jersey	Minnesota	Missouri	Missouri	New Hampshire	Louisiana
	South Carolina	South Carolina	North Carolina	Nebraska ↑	New York	North Carolina ↓	New Jersey	New Hampshire
	South Dakota	South Dakota*	Oregon	North Carolina	Pennsylvania	Ohio ↑	New Mexico	New Jersey
	Utah	Vermont ↓	Tennessee	Oregon	Virginia	Virginia	Oregon	New Mexico
	Wyoming	West Virginia ↓	Wisconsin	South Dakota ↓	Wisconsin	Wisconsin	Tennessee	Oregon
Tier 4	Colorado	Colorado	Connecticut	California ↑	Alaska	Alabama ↓	Alabama	Idaho
	Iowa	Indiana ↓	Kentucky	Iowa ↑	Connecticut	Alaska	Arkansas	Maine ↓
	Kentucky	Iowa	Maine	Maine	Kentucky	California ↑	Idaho	Mississippi
	Minnesota	Massachusetts ↓	Massachusetts	Massachusetts	Nevada	Connecticut	Mississippi	Nebraska
	Mississippi	Mississippi	Missouri	Missouri	Ohio	Hawaii ↑	Nebraska	New York
	New Hampshire	New Hampshire	Nebraska	New Jersey ↓	Oklahoma	Kansas ↑	New York	North Dakota
	North Carolina	New Jersey ↑	Pennsylvania	Pennsylvania	Oregon	Oklahoma	North Dakota	Pennsylvania
	Oregon	North Carolina	Rhode Island	Rhode Island	Rhode Island	Oregon	Pennsylvania	Tennessee ↓
	Pennsylvania	Tennessee	South Carolina	Tennessee ↓	South Carolina	Rhode Island	Texas	Texas
	Tennessee	Texas ↑	West Virginia	West Virginia	Washington	Washington	Wisconsin	Wisconsin
Tier 5	California	California	California	Illinois	California	Illinois	Alaska	Arizona
	Illinois	Connecticut ↓	Illinois	Indiana	Hawaii	Kentucky ↓	Arizona	Arkansas ↓
	Louisiana	Illinois*	Indiana	Kansas	Illinois	Louisiana	California	California
	Maine	Kentucky ↓	Iowa	Kentucky ↓	Kansas	Massachusetts	Colorado	Colorado
	Michigan	Maine	Kansas	Louisiana	Louisiana	Mississippi	Kentucky	Kentucky
	New Jersey	Michigan	Louisiana	Michjgan	Massachusetts	Nevada ↓	Missouri	Missouri
	New York	Ohio ↓	Michigan	Mississippi	Mississippi	New Jersey	Montana	Montana
	Rhode Island	Oregon ↓	Mississippi	New York	New Jersey	New Mexico	Ohio	Ohio
	Texas	Rhode Island	New York	Ohio	New Mexico	South Carolina ↓	Oklahoma	Oklahoma
	Wisconsin	Wisconsin	Ohio	Wisconsin ↓	West Virginia	West Virginia	South Dakota	South Dakota

↑ Upward tier movement
↓ Downward tier movement

** New Mexico, Illinois, and South Dakota have not yet released GAAP financial audits for fiscal 2007. As a result, some of their financial measures are not comparable with those of the other states.*

Appendix D: 2007 and 2008 Scorecards: Underlying Data Ranges and Medians for Variables

	High	Median	Low
Finance Variables			
Five Year Average Fund Balance Ratio			
2007	69.8%	4.4%	(19.2%)
2008	72.9%	5.8%	(20.0%)
Five Year Tax Revenue Growth			
2007	135.8%	36.6%	10.8%
2008	232.8%	37.5%	10.1%
Five Year Expenditure Growth			
2007	61.4%	21.8%	6.7%
2008	65.0%	24.0%	5.7%
Number of States that Inccured Deficit Borrowing in the Most Recent Year			
2007		2	
2008		2	
Economy Variables			
Ten-Year Growth in Per-Capita Income as a % of U.S. Average			
2007	24.0%	0.4%	(7.3%)
2008	21.2%	0.4%	(9.2%)
Five-Year State Employment Growth			
2007	19.8%	4.5%	(2.7%)
2008	18.7%	5.3%	(3.5%)
Five-Year Domestic Net Migration			
2007	1,039,467	7,643	(1,022,954)
2008	913,873	12,335	(1,066,358)
State Poverty Rate			
2007	20.1%	11.7%	5.6%
2008	20.6%	11.3%	5.4%
Debt Variables			
Ten-Year Growth in Net Tax-Supported Debt as % of State Personal Income			
2007	10.6%	2.4%	0.1%
2008	3.8%	0.4%	(2.3%)
Net Tax-Supported Debt to State Tax Revenues			
2007	154.5%	41.5%	1.3%
2008	157.8%	51.5%	1.2%
State Pension Funding Ratio			
2007	132.4%	82.9%	43.4%
2008	132.4%	82.9%	34.6%

**The 2008 Scorecard rankings are based predominantly on underlying data from 2007, and the 2007 Scorecard rankings are based predominantly on data from 2006. Pension funding and poverty rate data lag by an additional year.*
See Appendix A for information on the calculation and reporting of each variable.

Moody's Related Research

Special Comments:

- U.S. States Credit Scorecard, August 2006 (98088)
- U.S. States Credit Scorecard, September 2007 (104389)
- Moody's State Rating Methodology, November 2004 (89335)
- 2008 State Debt Medians, March 2008 (107917)
- Rating Changes for the 50 States from 1972 to Date 1973 to Date, May 2008 (108702)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Report Number: 109606

Author	Senior Associate	Production Specialist
Nicole Johnson	Whitney Jones	Cassina Brooks

Moody's Investors Service

STANDARD
&POOR'S

RATINGSDIRECT®

December 11, 2007

Summary:

Vermont; General Obligation

Primary Credit Analyst:
Colin MacNaught A, Boston (1) 617-530-8312; colin_macnaught@standardandpoors.com

Secondary Credit Analyst:
Karl Jacob, New York (1) 212-438-2111; karl_jacob@standardandpoors.com

Table Of Contents

Summary:

Vermont; General Obligation

Credit Profile		
US$29. mil GO rfdg bnds ser 2007F due 07/15/2023		
Long Term Rating	AA+/Stable	New
US$11. mil GO bnds (Vermont Citizens Bnds) due 07/15/2017		
Long Term Rating	AA+/Stable	New
Vermont GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to Vermont's series 2007F GO bonds and its 'AA+' long-term rating to Vermont's series 2007E GO Citizens bonds. At the same time, Standard & Poor's affirmed its 'AA+' rating on the state's outstanding GO debt.

The rating reflects the state's:

- Strong financial management, including conservative debt and budgeting practices, that has helped maintain its favorable financial position with ample reserves and liquidity;
- Stable economy, although economic performance is expected to be mixed over the next few years; and
- Favorable debt position with a low debt burden and rapid amortization of debt outstanding.

The bonds are general obligations of the state for which its full faith and credit is pledged. The series E bonds are the state's Citizen Bonds, representing the retail portion of the 2008 bond issuances. The series F bonds are refunding bonds. The state projects the refunding to generate about 4% in present value savings.

Vermont's economy, in general, remains stable, but economic growth has slowed. Like many other states, the downturn in real estate is having a drag effect on the state's economy. According to the state's economist, the economy is six to nine months into a real estate slowdown. Residential construction spending is down $373 million, with the value of housing construction having declined more than 50% from early 2006 to August 2007. The decline in housing starts, primarily second homes, is coinciding with a decline in the rate of price appreciation on a year-over-year basis. According to forecasts, the current housing market correction will negatively impact economic activity, including job growth, over the next six to eight quarters. As a result, growth and output is projected to be weak and will underperform relative to the U.S. average.

Real gross state product, which was stagnant in the third and fourth quarters of 2006, is expected to post a year-over-year decline in the first quarter of fiscal 2007--its first such decline since 1996--with a turn-around projected in the second half of 2008. This is well below Vermont's long-term range of annual output of 2% to 3% growth. Despite this forecast, other measures of the economy remain solid. The labor market remains tight with low unemployment and some growth in certain segments/industries of the economy. Through August 2007, unemployment was a low 4.1%. Unemployment has remained below the national average since 1991. Six of the eight employment sectors are experiencing some levels of growth. The leisure and hospitality sector, which remains a large part of the overall economy, has lagged other sectors due to poor tourist activity in 2006-2007. However, the sector is expected to experience solid gains in employment and payroll over the next year due, in large part, to the favorable currency exchange rate for Canadian tourists. In 2006, median household effective buying income (EBI) was 98% of the U.S. average; per capita EBI was 97%.

The state's strong fiscal controls and steady revenue performance has contributed to its favorable financial position, with consistent operating surpluses and reserves maintained at their statutory limits. Following a surplus in fiscal 2005, the state closed fiscal 2006 with a $36 million operating surplus. The budgetary surplus was reduced by transfers into reserves and for onetime appropriations, like pay-as-you-go capital. Roughly $24 million was used in the so-called year-end windfall, including funds for one of the state's pension systems.

State officials estimate another operating surplus for fiscal 2007 based on unaudited figures, which closed June 30, 2007, driven mainly by stronger-than-forecast personal and corporate income tax revenues. The state has estimated that this was labor-market driven, more than a function of capital gains. A portion of the projected $32 million surplus will be used to plug a small operating deficit in the transportation fund, which continues to realize lower sales tax revenues due to reduced automobile purchases. The general fund ended the fiscal year with $55.22 million in budget stabilization reserves, equal to the statutory maximum of 5% of the previous-year budgetary appropriations. In addition, both the transportation fund and education fund closed fiscal 2007 with their respective budget stabilization reserves at their maximum level, adding to the state's overall financial flexibility. The base fiscal 2008 appropriation is up 3.3% over fiscal 2007. Year to date, the state's general fund revenues have outperformed budget in four of the first five months of the fiscal year. Cumulative, operating revenues are about 1% ahead of forecast. For the fiscal 2009 budget adjustment, the administration has alerted departmental heads that revenue growth is expected to slow for the coming year, given the economy's outlook.

The biannual consensus revenue forecasting practice is one of the state's many adopted fiscal and debt policies. Standard & Poor's considers Vermont's management practices "strong" under its Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Vermont's debt burden has remained a credit strength over the past several years with debt capacity steadily increasing as state officials retire more debt than they issue. The state's debt affordability committee has recently issued its recommendation for debt authorization for fiscal 2009. The committee recommended increasing the state's GO bonding to $54.65 million in fiscal 2009. The state's debt burden is low, and its debt structure is conservative. Nearly all of the state's direct debt consists of fixed-rate GO bonds, which amortize rapidly. As of this issue, debt ratios were a manageable $803 per capita and 2.3% of personal income, including the $11 million the state will issue in December 2007. The state does not have any variable-rate debt outstanding nor does it use swaps or other derivative products.

Outlook

The stable outlook reflects Standard & Poor's expectation that the state's prudent financial and debt management practices will continue to lead to positive financial operations and structural budget balance. Vermont's steady revenue growth relative to forecasts has allowed it to increase its reserves beyond statutory levels, providing the state some measure of revenue flexibility should revenue growth slow. Standard & Poor's will continue to monitor the state's ability to maintain its favorable financial position, while meeting its growing health services obligations, in light of the state's expectations of slower revenue growth in the near future.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

NEW ENGLAND ECONOMIC PARTNERSHIP
(NEEP)

Vermont Economic Outlook

May 2008

VERMONT ECONOMIC OUTLOOK

The Forecast in Brief

- The May 2008 Vermont forecast for NEEP indicates that the Vermont economy will follow the U.S economy and experience a general economic downturn over the first half of calendar year 2008. This recession will be followed by a slow, historically restrained recovery where healthier rates of growth do not re-emerge until the housing market downturn has run its course in late calendar year 2009.

- Among the major macro-variables:

  - Payroll jobs are expected to decline in calendar year 2008, followed by a gradual recovery, with an improving tone to the rate of job growth in the final three years of the forecast period.

  - Output growth (GSP), with the exception of the initial recession year of the forecast in calendar 2008, is expected to rebound and recover-grow at a slightly higher pace than New England as a whole.

  - The unemployment rate, despite the recession and the relatively slow employment growth environment, will continue to remain among the lowest in the New England region throughout the forecast period.

- The housing market downturn nationally, regionally, and in Vermont and the still evolving sub-prime mortgage shake-out remains as the most significant unknown and the largest source of downside forecast risk in this NEEP forecast revision.

  - This latest forecast shows that housing prices will decline over the next eight quarters on year-over-year basis beginning in calendar 2008:Q2, and this will contribute to a subpar economic environment and continued uncertainty in U.S. and global financial markets until the scope of risks to lenders are realized or at least sorted out and understood.

  - So far, Vermont has had one of the lowest delinquency rates in the country and the lowest in the New England region, and this has allowed the state to avoid the economically damaging combination of rising delinquencies, foreclosures, and forced liquidation sales that push housing prices down.

  - However, it is unmistakable that asset quality has eroded since the state's housing market peak back early in calendar year 2006, the housing market will continue to be a drag on the pace of the state's economic forward progress over at least the next two calendar years.

- On the upside, the best estimate is that the current downturn will turn out to be a "short and shallow" one, milder than the mildest economic downturn experienced back in calendar year 2001.

  - The "short and shallow" scenario is based on: (1) the relative strength of the global economy (which is expected to slow but not experience a downturn), (2) the strong financial health of the business sector which should help aid the upcoming recovery—even with scarce and more expensive credit, and (3) the unprecedented engagement of U.S. monetary and fiscal policy.

  - The weak dollar also is reinforcing the demand created by a more healthy global economy, and has been particularly helpful to northern Vermont where Canadian traffic is boosting visitor activity.

- The other major downside risk for the economy is the persistently high and still rising level of energy prices, with over $4.00 per gallon gasoline a reality in the weeks-months ahead as the Summer driving season begins.

  - The continuing conflict in the Middle East continues to create a hefty risk premium in the price of oil which recently has traded above $125 per barrel.

  - Vermont's tourism economy and many of her manufacturers remain highly sensitive to high and rising fuel prices.

  - High energy prices act like a tax, robbing households of disposable income and increasing business costs—without any off-setting spending by state or local governments.

- Looking more closely at the state macro-variables, growth overall in the Vermont economy is expected to remain positive but restrained.

  - Following the recession in calendar 2008, payroll job growth is expected to remain between 0.7% and 1.0% annual rate of growth throughout the final three years of the forecast period,

  - Personal income is expected to grow at relatively healthy rates of between 3.8% and 4.2% over the final years of the forecast period following the recession,

  - Labor force growth is expected to remain very slow, averaging less than 1.0% per year throughout the forecast period,

  - Manufacturing payroll jobs will lose significant ground in calendar 2008 due to the recession, but will never really regain any positive footing anytime during the five year forecast period,

  - Output growth is expected to recover in calendar year 2009 and average just north of a +3.5% annual rate of growth as the real estate recovery begins to kick in for calendar 2010 and beyond.

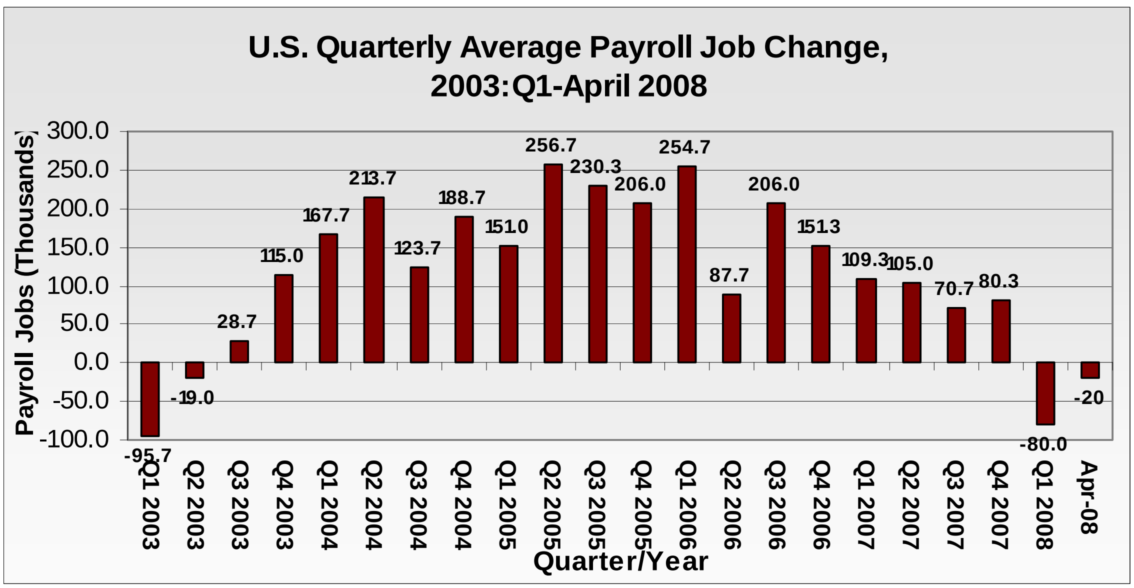
- A total of seven of Vermont's twelve major NAICS sectors are expected to see positive growth over the forecast time horizon, with all but two kicking into positive territory by 2012.

  - The sectors showing the strongest potential for growth are the Education and Health Services, Professional & Business Services, and the Information sector.

  - Only the Manufacturing (at -1.1% per year and mostly due to productivity gains), the Natural Resources and Mining (at -3.4% per year), and the Governmental sectors (at -0.7% per year) are forecasted to have negative payroll job performances over the five year forecast period.

The Current U.S. Situation

Since last Fall's NEEP forecast, the economic climate over the last 6 months deteriorated further. The U.S. economy either currently is or will soon be in a widely acknowledged recession. Although real GDP growth has managed to post paltry +0.6% rates of increase over the last two quarters, the pace of output growth has slowed sharply since the third quarter of calendar year 2007. In addition, the first quarter GDP reading was boosted by the accumulation in inventories and weak total and domestic final demand. Unwanted inventories and weak final demand is a decidedly negative combination for future near-term output increases. There seems little chance that the April to June 2008 quarterly GDP reading will be able to avoid going negative.



The job market, although the month of April came in better than expected, has lost 260,000 payroll jobs since the beginning of the year,[1] and the unemployment rate has risen by more than ½ of a percentage point from its cyclical low point. Increases in the U.S. unemployment rate of that size are characteristic of an economy that has fallen into recession. In past cycles, the U.S. unemployment rate has never experienced an increase of that size without the overall economy experiencing a recession. This output and labor market performance—in combination with the shaky and volatile credit market conditions and the housing downturn—have undermined both consumer and business confidence. Various indicators show that confidence has now fallen to readings levels that are typical for periods of recession.

The root of nearly all of the economy's current problems is the housing sector and how the downturn has rippled out through the general economy. For many analysts, the housing sector, which peaked nearly 3 years ago, is in the midst of its most significant downturn since the 1930s. Housing sales (which have fallen by more than one-third since their peak), construction (where starts have dropped by 58.7% since topping out in January of 2006), and prices (which have

[1] According to these data, the +0.6% increase in GDP was not sufficient to produce a positive increase in payroll jobs during the quarter.

fallen by more than 10% on average across the country) all portray a housing market that has yet to reach its bottom. As a result, it is very likely that the housing sector is in for even more bad news over the next three to six months—or even longer—until the excess of unsold housing inventories has finally been substantially cleared.

In fact, much of what has occurred in the economy since the last NEEP forecast update last November has been very close to what typically occurs during a recession. During recessions, cyclical imbalances and excesses reach a tipping point, causing businesses to cut back on hiring and causing the economy's unemployment rate to begin to rise. As unemployment increases, the rising level of joblessness begins to undermine consumer confidence and households cut back on their spending. Businesses respond to the cutbacks in consumer spending by further reducing their new investment and hiring, and perhaps cutting back on their payrolls. As a result, unemployment rises further, and the negative self-reinforcing cycle continues.

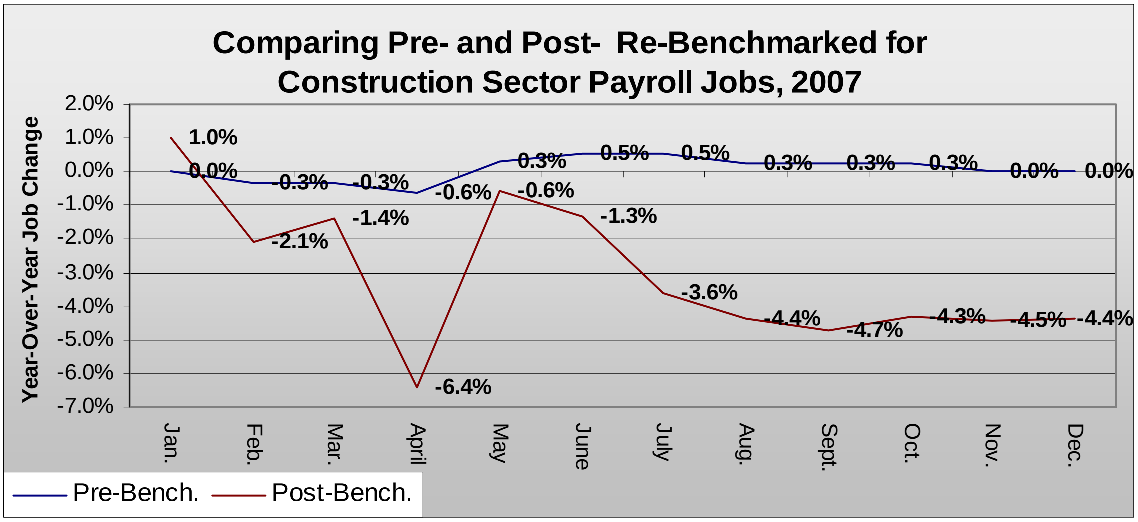
So far through the month of March, there are a total of nine states (including the states of Arizona, California, Missouri, Nevada, Florida, Michigan, Ohio, Wisconsin, and Rhode Island in the New England region) have lost private- and public sector payroll jobs over the past year. A total of thirteen states have experienced negative changes in private sector payroll job growth through March of 2008,[2] including all of the states previously mentioned plus states such as Indiana, Idaho, and Tennessee. These states account for a significant portion[3] of the U.S. GDP. There are several other large states—such as Pennsylvania and New Jersey—that are likewise within shouting distance" (e.g. within one-half percentage point) of going negative on the payroll jobs front. Simply put, there presently is not a lot of room between the current situation and a significant national economic downturn.

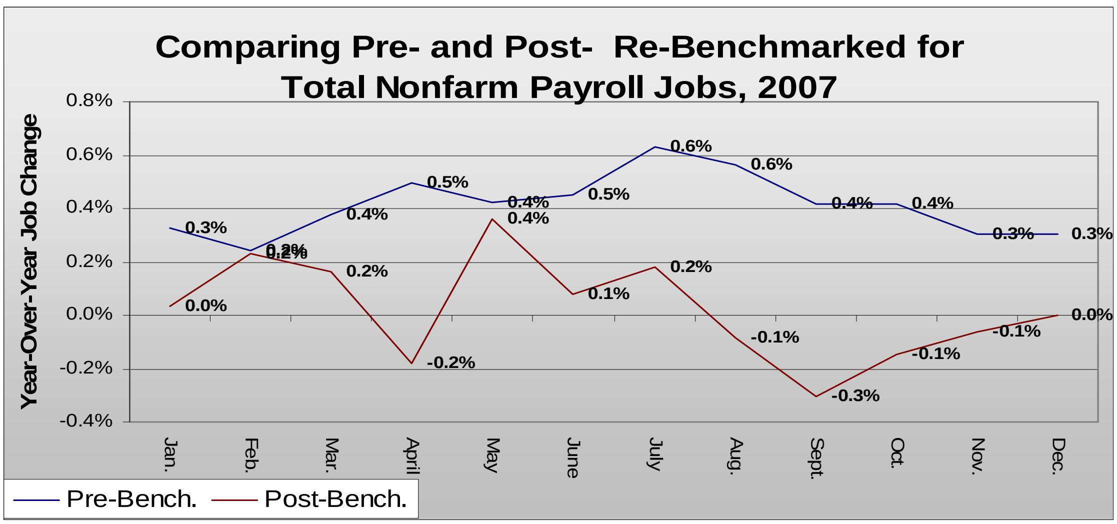
The Vermont Situation

Looking at the current Vermont situation, the top line numbers show an economy that remains sluggish. Year-over-year job growth has flattened out considerably since last Fall. The data show a pace of job additions that has recently been and will likely continue to be at a slower rate than either Vermont's own historical average or the prospective U.S. average rate of change over the near-term time horizon. Some of the reasons for this have been pointed out in recent NEEP forecast updates. These include: (1) the housing sector downturn that has undermined what had recently been one of the more significant positive contributors to the Vermont economic upturn following the 2001 recession—particularly for second homes, (2) unfavorable demographics which has resulted in a slowing in labor force growth and left many potential job opportunities that could be filled within the state unfilled, (3) what many business analysts in the state regard as unfavorable business climate issues, including high energy costs and higher tax rates which increase the cost of doing business in the state, (4) a "high" cost of living for current and prospective employees-executives and their families which discourages new workforce in-migrants and business decision-makers from locating in the State, and (5) lack of job opportunities and affordable work force housing choices for young professionals and their growing families. Each of these possible explanations has been put forth by one group or another in recent times. While there is not complete agreement among economists, economic development professionals, policy analysts and other stakeholders in Vermont about the contribution of any and all of the above-referenced factors, the facts show a sluggish pace to payroll job and total employment growth since last Fall.

[2] On a year-over-year basis.
[3] More than one-quarter.

In fact, the quarter to quarter change in total payroll jobs has, like the national payroll job performance, turned negative in the state during the first quarter. Preliminary data indicate that total private sector jobs declined at the annual rate of just under 1.0% and total payroll jobs fell at an annual rate of less than 0.5%. Both of these benchmarks are somewhat more positive than the initial forecasted rates of change in the first quarter of this NEEP outlook revision, thanks in part to a better than expected 2008:Q1 performance in the manufacturing sector, the Professional and Business Services sector, and the Governmental sector. Somewhat poorer actual performances during the 2008:Q1 period were experienced in the Education and Health Services sector and the Leisure and Hospitality sector. The latter looks to be in conflict with the anecdotal reports from the field this Winter season where ski areas report one of the strongest seasons in recent history—thanks to positive weather conditions and strong support from international visitors (including a big boost from Canadian visitors). Skier visits in total are reported by the Vermont Ski Areas Association to be north of the 4.1 million in comparison to the 3.8 million level experienced during the weather and fuel price-dampened 2006-07 Winter season.

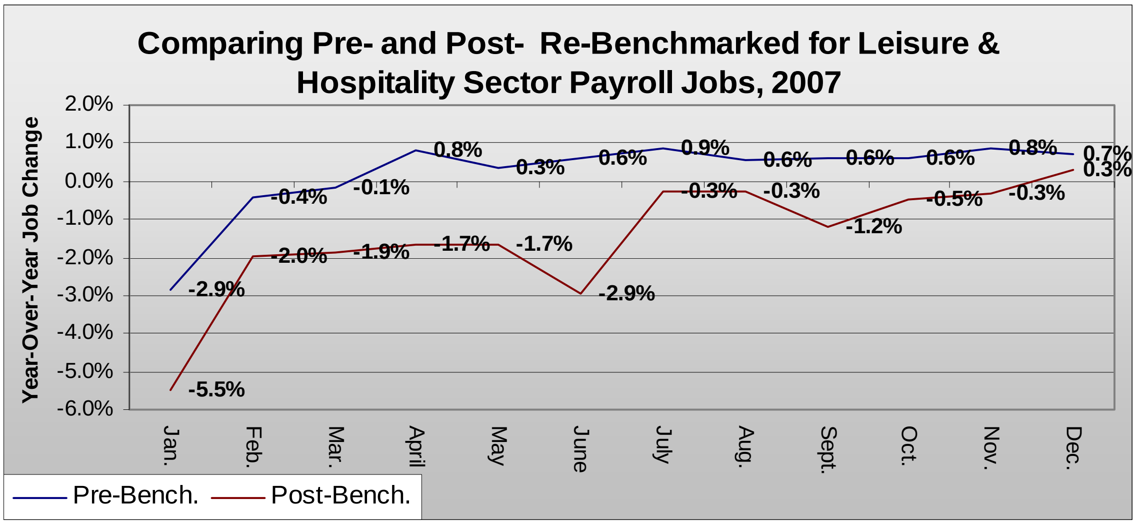




At least some of that weaker Leisure and Hospitality sector performance may be explained by the harsh Spring 2008 re-benchmarking revisions. This Spring, the re-benchmarking process eliminated virtually all of the payroll job growth for calendar year 2007 indicated by the survey data (see the attached graph). This represented the third year in a row where the re-benchmarking process took away a significant number of payroll jobs that the Vermont Department of Labor's initial CES[4] survey of business establishments indicated were present in the Vermont economy. By far the two sectors with the largest negative changes in the re-benchmarking process were the Construction sector and the Leisure and Hospitality sectors. In the former category, the Construction sector under the re-benchmarked estimates started the Spring season badly, and the situation deteriorated further from there. This is likely a more accurate picture of what actually was occurring in the Construction sector across calendar year 2007 (at a roughly 4.0% to 4.5% annualized rate of decline) than the survey data indicated (at a flat, but still positive performance across the 2007 calendar year). In the Leisure and Hospitality sector, the re-benchmarked data show a sector than was punished by the poor weather and initial run up in energy prices last Winter and never got its nose above the breakeven job growth line until December of 2007. The beginning crater was much deeper in January 2007 than was originally estimated (-5.5% on a year-over-year basis versus the original estimate of a -2.9% year-

[4] CES means Current Employment Survey.

over-year job decline). However, because actual Quarterly Census of Employment and Wages data were available only through September 2007, it is possible that the negative changes in the job count numbers for the October to December quarter, data that were still estimated under the Spring of 2008 re-benchmarking process, may in fact turn out to be too negative. The 2007-08 Winter Ski Season got off the mark well in November and December, and this dynamic may have been missed in the survey data going off of the low 3rd quarter benchmark.



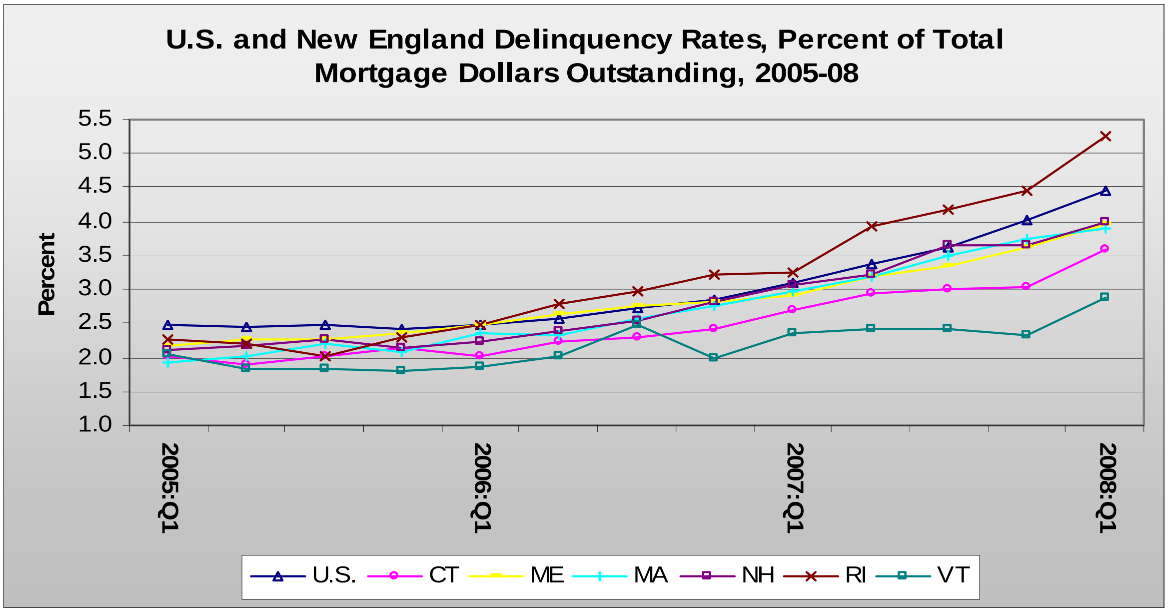
Overall, the top line macro variables show a Vermont economy that has stalled—if not entered a shallow economic downturn—with slightly negative inflation-adjusted personal income and inflation-adjusted Gross State product numbers. While it is still too early to call it definitively, this performance has all of the characteristics and "feel" if an economic recession in the state. This should not be a surprising development for the Vermont at this point as the national economy also has appears to have recently headed "south." Since the national economy is a primary driver of Vermont's economy, a largely concurrent Vermont recession with a national economic recession is an expected development.

Conference Theme—Credit, Housing and the Forecast for Vermont…

As typical as recent developments in the current U.S. downturn have been with respect to how recessions unfold, the one atypical aspect of the current economic situation is the turmoil that has beset U.S. and global financial markets since the middle of last August. This volatility and its effects have adversely impacted system liquidity, credit availability (as standards have become much tighter for most borrowers), the mortgage securities market (the non-conforming mortgage market has nearly evaporated due to the inability to securitize anything but conforming mortgages), and commercial lending in general. Credit is more expensive and much harder to come by even for the "good" credit risks. Residential mortgage loan delinquencies have soared in several parts of the country (e.g. Arizona, California, Florida, Nevada, the industrial Midwest, and in the New England region down the I-95 corridor from Portland, ME to Fall River, MA and Providence, RI down to Washington, DC).

In the New England region—including the state of Vermont—credit quality has clearly been eroding. The delinquency rates (as delinquency is the first step in the foreclosure process) for all of the New England states established new cyclical highs during the first quarter of calendar year

2008. Three states in the region, including Maine, Massachusetts, and New Hampshire, are clustered in their respective national rankings around the mid-20s as of 2008:Q1, with a delinquency rate at just under 4% of the total outstanding mortgage dollars loaned. The state of Connecticut is ranked somewhat more positively at the 31st highest rate of mortgage delinquency at 3.58% of mortgage dollars outstanding.



At the regional extremes, the state of Vermont is ranked 42nd among the 50 states or at the 9th lowest level of mortgage delinquency in terms of total mortgage dollars outstanding. The state during the 2008:Q1 ranked lowest among the six states in the New England region in mortgage delinquency, and has experienced the smallest increase in delinquency rates among the six New England states since its last cyclical low as well. At the other end of the spectrum is the state of Rhode Island. Rhode Island's 5.24% delinquency rate ranked as the 5th highest (worst) among the 50 states as of 2008:Q1. That state has the highest delinquency rate in the New England region, and has experienced by far (at +3.42 percentage points) the largest percentage point increase in its delinquency rate since the state's last cyclical "low" (see Table 1). Relative to the U.S. average, five of the six New England states had lower than average rates of mortgage delinquency in 2008:Q1, although only three New England states (Connecticut, Maine and Vermont) have experienced a smaller percentage point increase in delinquency rates from the last cyclical low relative to the national average.

Table 1: Comparing Mortgage Delinquency Rates 2004:Q1 through 2008:Q1

% Total Mortgage Dollars Outstanding State	Cyclical Low	Current Peak	Change Pct. Points	Current Peak Rank-U.S. [1]
	%	%		
Connecticut	1.84	3.58	1.73	31st
Maine	2.12	3.95	1.82	25th (T)
Massachusetts	1.81	3.90	2.09	26th (T)
New Hampshire	1.76	3.98	2.22	24th
Rhode Island	1.83	5.24	3.42	5th
Vermont	1.78	2.89	1.11	42nd
U.S.	2.47	4.45	1.98	---

Note:
[1] Rank is highest to lowest, with a lower rank being more favorable.

Basic Data Source: Moody's Economy.com [Equifax Data]

For whatever reason, the state of Vermont so far in this housing market downturn has been able to for the most part avoid the potentially toxic combination of increased delinquencies, increased foreclosures, and increased forced liquidation sales. Forced liquidation sales are a primary factor in any downdraft in housing prices that drive significant erosions in household equity positions (wealth). This is reflected in recent price trends among both the Case-Shiller house price index (which includes housing sales that involve non-conforming mortgages[5]) and the OFHEO[6] house price index (which includes only the so-called conforming market). In each case, while it is clear that housing prices are weakening across the region relative to three to five years ago, prices have yet to experience actual nominal dollar declines in either Vermont or Maine for the Case-Shiller Price Index (see Table 2) and in three of six New England states (including Vermont, Maine and Connecticut—as well as for the U.S. as a whole) for the OFHEO Price Index (see Table 3).

This is an important factor in the near-term economic outlook. When households feel poorer, either because of lost equity and/or negative equity trends in the value of their houses,[7] households can cut back on consumption to the detriment of the economy overall. While it is clear that consumers have grown more cautious in response to past equity losses unfavorable trends, it is decidedly uncertain as to how the prospect of further equity loss or negative price trends over at least the near-term will impact consumption going forward. This represents one of the most significant risks to the current forecast. If households make further significant cutbacks in their spending, the negative self-reinforcing cycle of recession as outlined above, could further intensify into a more historically average economic recession or even worse.

[5] Non-conforming generally means those mortgages that exceed Fannie Mae and Freddie Mac mortgage limits.
[6] OFHEO refers to Office of Federal Housing and Enterprise Oversight.
[7] As the single largest asset or item of wealth on household balance sheets.

Table 2: Comparing Housing Price Change 2003:Q1 through 2007:Q4

Case-Shiller Price Index State	Cyclical High	Cyclical Low	Change Pct. Points	# of Negative Quarters	Weakest Quarter So Far
Year-Over-Year Basis	%	%			
Connecticut	15.60	-1.28	-16.88	5	2007:Q4
Maine	13.27	0.53	-12.74	0	2007:Q1
Massachusetts	17.04	-4.34	-21.38	7	2006:Q4
New Hampshire	19.56	-4.48	-24.04	6	2007:Q1
Rhode Island	21.69	-4.31	-26.00	6	2007:Q2
Vermont	13.45	0.49	-12.96	0	2007:Q2
U.S.	15.60	-8.90	-24.50	4	2007:Q4

Basic Data Source: Moody's Economy.com

Table 3: Comparing Housing Price Change 2003:Q1 through 2007:Q4

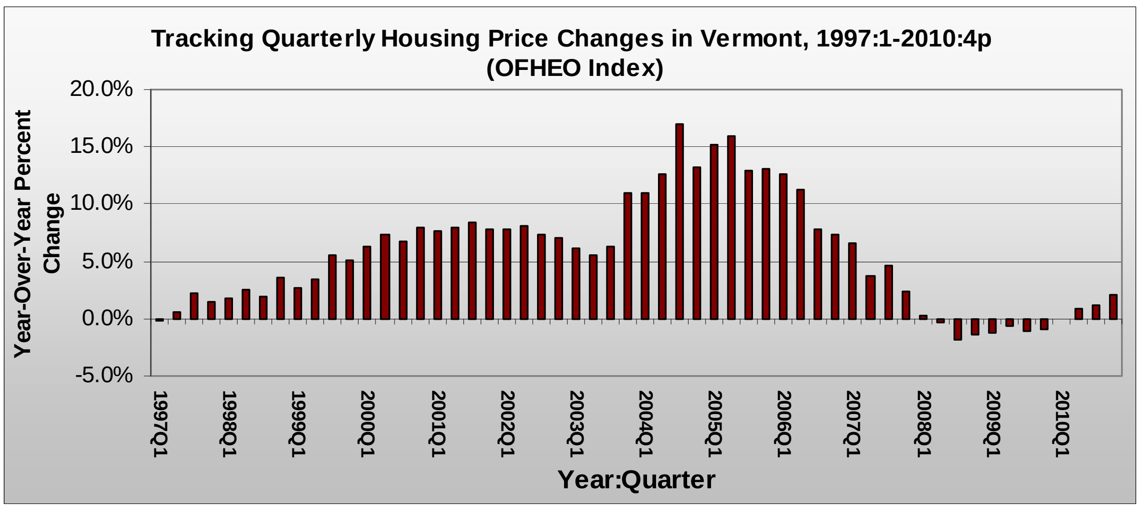
OFHEO Price Index State	Cyclical High	Cyclical Low	Change Pct. Points	# of Negative Quarters	Weakest Quarter So Far
Year-Over-Year Basis	%	%			
Connecticut	12.31	0.81	-11.49	0	2007:Q4
Maine	14.34	1.91	-12.43	0	2007:Q4
Massachusetts	13.69	-2.18	-15.87	4	2007:Q3
New Hampshire	12.21	-0.61	-12.83	2	2007:Q4
Rhode Island	21.70	-2.56	-24.26	3	2007:Q4
Vermont	17.05	2.41	-14.64	0	2007:Q4
U.S.	12.31	0.84	-11.47	0	2007:Q4

Basic Data Source: Office of Federal Housing and Enterprise Oversight

The relative absence of housing price declines in Vermont at least so far in the current housing market downturn has been a significant plus for the state's recent economic performance. For the most part, households in the state have not yet seen a large decline in their net worth. Consumption spending in the state—although softening—has not experienced either a nose-dive or even a significant downdraft that can be brought about by the impact of slumping housing prices.

Looking ahead, just because the state has so far been able to avoid the negative delinquency—foreclosure—forced liquidation sales dynamic does not mean that it is smooth sailing ahead for the Vermont economy and its housing downturn. Realtor statistics indicate that inventories of unsold homes have increased, and unsold units are currently remaining on the market for significantly longer periods of time than was the case at this time last year—even in areas where supply and demand conditions are tight (such as the northwest region and in the Connecticut River Valley border area with the state of New Hampshire). The commercial market likewise is starting to see some more slack develop, although the amount of vacant space is not at this point any kind of a "problem."

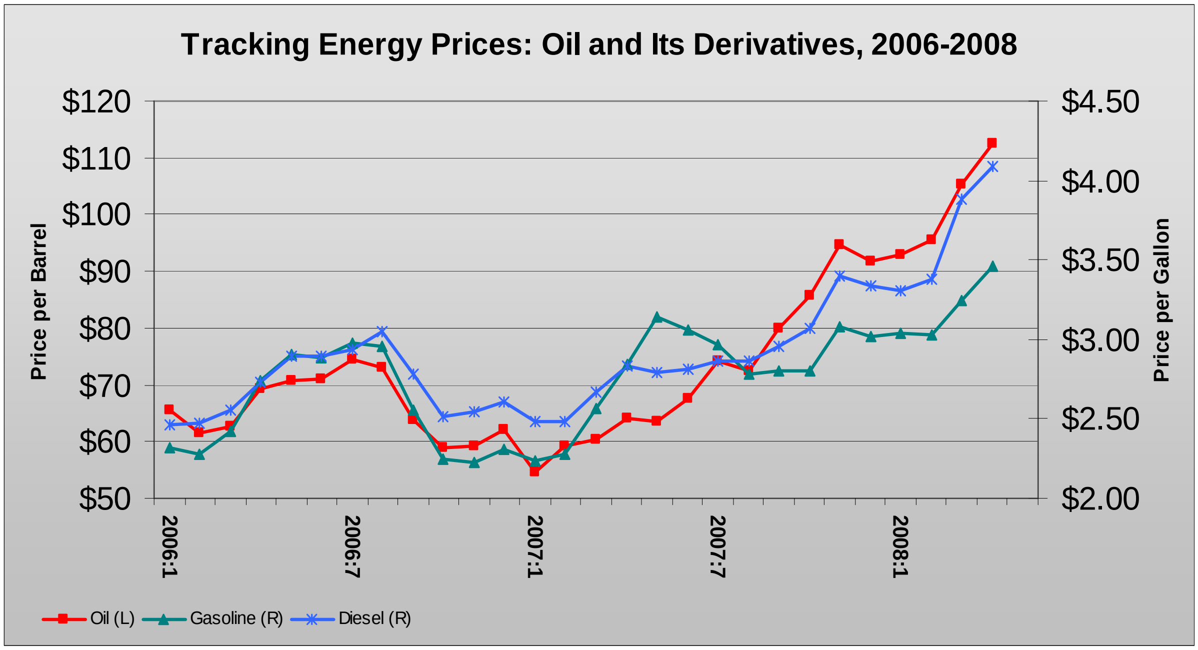
A significant part of the recent increase in slack in real estate markets are reported to be an artifact of tightening credit market conditions throughout the state. In one part of the market, regulators and examiners are taking a harder look at the real estate portfolios of regulated lenders, and lenders are responding by increasing their standards for all potential borrowers. In another part of the market, lenders in the nonconforming market have become much tighter and stricter as well, making it harder and more expensive for lenders who choose to pursue that route for their borrowing to obtain credit. The current situation is apt to worsen over at least the near-term time horizon. The real estate slowdown in Vermont has occurred largely at a time when residential and other values were still on the rise—even if it was at a decreasing rate. At this point, it is arguable whether or not prices will continue to rise in the state as the underlying fundamentals of the market continue to head south. In fact, this NEEP forecast outlook revision expects that the state is just now entering a period of time where residential housing prices on average will begin to decline. At this point, the real estate cycle is expected to be a moderate one, with relatively moderate just under -1.0% price declines in the conforming market and a somewhat more significant 6½-7% decline in the median sales price of single family home in Vermont during the down part of the current real estate cycle (mostly in calendar year 2008 and into the first half of calendar 2009). During their worst quarters, the OFHEO index is expected to decline at -2.0% to -3.0% annual rates and the median price of a SF home in the state is expected to decline at annual rates of between -10% to -15%.



It is during the upcoming period when housing prices are expected to decline that the state will go through its most vulnerable period economically—principally calendar years 2008-09. As the negative economic fallout spreads beyond just housing and its directly linked sectors such as construction and financial services, there is the opportunity for the current downturn to become more pronounced and to last much longer than is currently envisioned in the "short and shallow" consensus forecast as presented below. Much of reason for whether or not the situation will deteriorate further in the future is tied to the ability of financial and credit markets to return to some semblance of what is viewed as "normal." Although the volatility that has been experienced over the past eight to nine months has recently begun to settle down, financial and credit markets are not yet anywhere near being "normal." If markets are to return to normalcy, it will require continued deft and skillful execution of monetary policy, the absence of major mistakes on the fiscal policy front, and the relative absence of any major flare up on the global geo-political-fossil fuel front as well.

Energy Prices—A Continuing Source of Downside Risk

The third factor listed above is a key because of the impact that soaring energy prices have had on the economy which have been layered on top of the negative effects of the housing downturn and credit market volatility. High and still rising energy prices—which has been exacerbated by the falling value of the U.S. dollar, rising demand in Asia and the Middle East, and market speculation—are adding to the economy's substantial headwinds and volatility. The benchmark West Texas Intermediate Crude price in mid-May breached the heretofore unheard of level of $125 per barrel. The retail price of gasoline, too, has spiked again, the third time prices have risen to Hurricane Katrina- and Rita-like levels—and now perhaps to even beyond the $4.00 per gallon level on both a Vermont and national average basis.



This run up has occurred to the obvious detriment of drivers and businesses in rural states like Vermont where vehicle travel is a "must," and to the detriment of states, again like Vermont, which rely very heavily on visitor (tourism) traffic to move their economies forward. High and rising energy prices also are a significant handicap to Vermont manufacturers where the energy requirements are relatively high for manufacturers such as those in specialty foods, forest products, semiconductor fabrication, and for manufacturers of any good where transportation costs represent a significant portion of the cost of production. This was recently driven home in the state when one of the state's most successful manufacturers—Green Mountain Coffee Roasters—recently announced plans to expand its operations, not in Vermont, but at a location that was more centrally located to its customer base. While this is not a completely unexpected development for a state business that has a growing national customer base, it seems apparent that the recent post-Katrina generally upward trend for energy prices and the likelihood that the elevated level for energy prices is here to stay, likely sealed this decision.

To households, persistently high and rising energy prices act like a tax on household income. They have to be paid, and increased spending for energy—like increase payment of taxes—usually comes out of spending for discretionary items. In terms of impact on the macroeconomy, energy price increases are in most ways worse than tax increases. With tax payments, there is at least some off-setting government spending that acts to cushion the blow of removing that disposable income stream from the state or regional economy. Increased spending for energy generally results in spending that leaves the state altogether, to the detriment of the state economy.

The only plus that can be gleaned from the current energy price situation is that prices may have finally risen to the level where behavior by consumers and producers alike may be changing. On the consumer side, households in Vermont appear to be looking to change consumption habits and make investments to reduce their consumption, as trends at the national level also suggest. Ridership on mass transportation in the Burlington region is up substantially over last year, as much as 30% on major commuter routes, and anecdotal reports indicate that Vermonters are buying more bikes and biking-related equipment such as reflectors and helmets.[8] Producers for their part, may finally be seriously looking for ways to develop alternatives to the old explore and extract ways that have only continued to elevate the nation's already high dependency on foreign imports of oil and other fossil fuels. The problem is that neither of these positives offer promise for much near-term household budget relief or represent any near-term positive for either the national or Vermont economic outlook.

Overview of the Moody's Economy.com National Economic Outlook

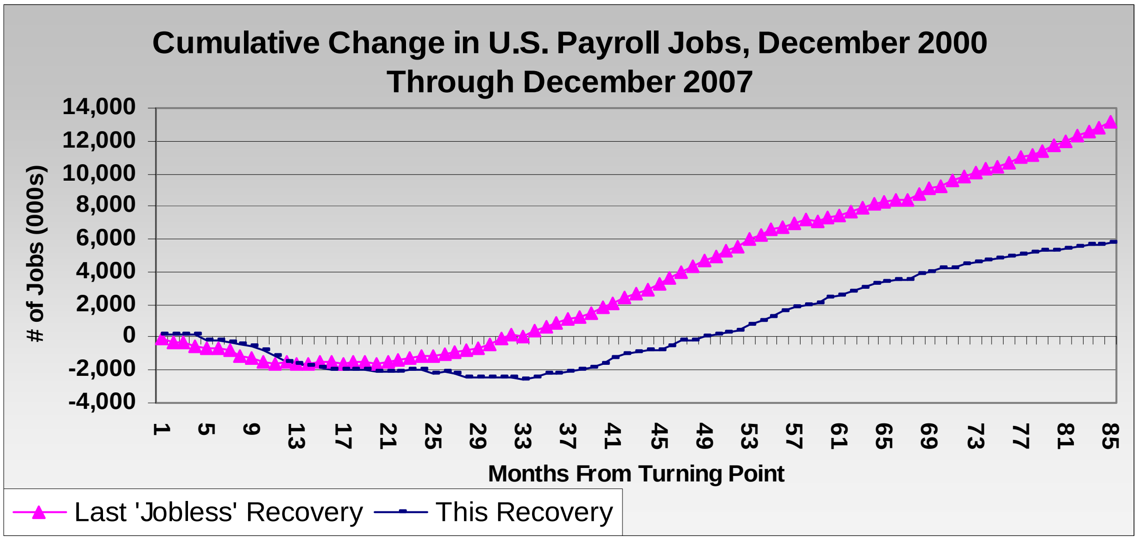
Despite the above discussion of risks and concerns, the best handicapping of the depth and duration of the current U.S. downturn—if it ultimately turns out to be a recession—is that it will closely resemble the experience of the 2001 U.S. downturn. That national recession, which lasted from March to November of that year, was much milder than the post World War II average. Like now, there was some weakness in the global economy at that time, but the positive performance of the emerging, rapidly developing nations (such as China and India) helped to partially off-set the weakness in the U.S. and other developed nations' economies. As a result, real GDP, industrial production and payroll jobs all declined in the 2001 Recession by far less than their post-World War II averages.

The current U.S. downturn is, like 2001, expected to be "short and shallow." In fact the Moody's Economy.com forecast for the U.S. economy, which laid the basis for the May NEEP forecast update for Vermont, is expected to be even milder than the 2001 U.S. downturn. Every recession certainly is different. The current downturn is expected to differ from past post-war downturns and even the most recent 2001 downturn for three essential reasons. These Include: (1) the relative strength of the global economy (including some weakening, but still respectable growth overall) which is expected to continue to provide a boost to U.S. exports, (2) the exceptionally strong cash position of corporate balance sheets (following what will likely prove to be a golden age for corporate profitability) which gives the business sector the financial ability to quickly engage following any concrete sign of an economic bottoming-turn around, and (3) the effects of the "full-engagement"—albeit somewhat late for some analysts—of both fiscal policy (through the federal Stimulus package) and monetary policy (with an aggressive liquidity and essentially zero "real" interest rates policy).

In addition to the above, Moody's Economy.com correctly points out that employers have been very careful in their staffing up following the last recession of calendar year 2001—adding to their payrolls at only the very restrained rate of less than 2/3 (at 63.0%) of the level of job recovery additions that occurred during the so-called "jobless recovery" of the early to mid-1990s. This hiring prudence likely means that employers are already "lean and mean" in their work forces, and as they so far have been able to manage the slowdown without a lot of layoffs (at least for those employers outside of the housing and directly linked sectors), they are poised to move—albeit somewhat cautiously—back into the investment and job markets from a position of

[8] The Chittenden County Transportation Authority reports that ridership on routes in and around the city is up 9% versus last year. On longer daily commuter routes to regional destinations Montpelier, Middlebury and Saint Albans, ridership has increased more than 24%.

financial strength-capacity, once signs of a bottoming economy and/or signs of an economic turnaround become more recognized.



Overall, the top line numbers for the U.S forecast paint a picture of only a mild U.S. recession—in fact the mildest in the U.S. economy's postwar history. Inflation-adjusted Gross Domestic Product (GDP) growth over the calendar year 2008-12 period is expected to range from a low of +1.5% in calendar year 2008 (following a negative first half of the year) to 3.5% per year (in calendar year 2010). GDP growth in the out-years of the forecast is expected to average at only the very restrained level of between +2.0% and 2.5%. Payroll job growth is forecasted to increase modestly over the calendar 2008-12 forecast period, increasing at only a +0.2% rate in calendar year 2008 and +0.7% rate for 2009, before topping out at +1.7% during calendar year 2010. After calendar 2010, payroll job growth is forecasted by Moody's Economy.com to ease back to +1.4% and +0.8% in 20-11 and 2012c, respectively. Inflation-adjusted Personal Income growth is expected to increase at only +1.2% for all of calendar year 2008. In the period following calendar 2008, personal income is expected to fluctuate between an average annual rate of growth of between +2.9% and +3.8%. As a result, the national unemployment rate is expected to increase from the annual average of 4.6% in calendar year 2007 to a peak of 5.8% in calendar year 2009. Following that peak, the national unemployment rate is expected to ease back by half a percentage point per year to average 4.8% by the end of the forecast time frame in calendar year 2012.

The Vermont Forecast Detail

Against the backdrop of the above described national economic outlook and existing economic-labor market conditions in Vermont, the Spring 2008 Vermont Economic Outlook update charts what has become a familiar and sluggish course. Once again, the overall tone to the Vermont outlook is positive once it gets beyond the economic downturn expected during the first two to three quarters of calendar year 2008. However, the pace of economic and labor market activity is expected to remain restrained throughout the five year forecast period. Payroll job growth is expected to for the most part remain under +1.0% over the next five years. On a quarterly basis, job growth is expected to post a -0.6% for calendar year 2008, followed by a modest +0.3% reading for the initial recovery year or during calendar 2009. Calendar years 2010-2012 are expected to range between a low of 0.7% in calendar year 2012 and a high of +1.0% in calendar year 2010—as this time expected to be the high point of the next 5 years.

Output growth in inflation-adjusted dollars is forecasted to grow at a higher rate over the course of the forecast, averaging just +0.5% in calendar 2008, followed by more healthy rates of increase of between +2.7% in calendar 2009, and varying between +3.6% and +4.0% over the rest of the forecast period as the real estate recovery cycle exerts its influence—particularly with respect to second home construction. Even though the +2.9% average annual rate of growth in inflation-adjusted Gross State Product over the 2008-12 forecast period is at the top of the New England region, it is noteworthy that this expected rate of growth is below the average for the 2002-07 period and represents only ¾ of the +4.1% average experienced in the state during the 1997-2002 time period—which includes the last recession in calendar 2001.

Table 4 presents comparative statistics from this latest May 2008 NEEP outlook update for the Vermont, New England regional, and U.S. economies. The U.S. data correspond to the assumed macroeconomic environment for the Vermont economy as provided by Moody's Economy.com. The New England data reflect the composite forecast for all six New England states. The Vermont statistics present the specific detail for the Vermont economic forecast that was developed for that same calendar year 2008-12 time period.

Table 4: Calendar Year Forecast Comparison: United States, New England, and Vermont (May 2008 NEEP Forecast)

	Actual					Forecast				
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Real Output ($2000-% Change)										
U.S. Gross Domestic Product	2.5	3.6	3.1	2.9	2.2	1.5	3.3	3.5	2.8	2.7
N.E. Gross Domestic Product	1.9	3.9	1.5	2.6	2.4	1.8	2.9	3.2	2.9	2.6
Vermont Gross State Product	3.7	4.1	2.5	2.8	1.7	0.5	2.7	3.6	3.6	4.0
Non-Farm Payroll Jobs (% Change)										
U.S.	-0.3	1.1	1.7	1.8	1.1	0.2	0.9	1.7	1.4	0.8
New England	-1.1	0.4	0.6	0.9	0.8	0.0	0.2	1.0	0.8	0.4
Vermont	-0.1	1.3	0.9	0.6	0.0	-0.6	0.3	1.0	0.9	0.7
Personal Income %Change (Current Dollars)										
U.S.	3.2	6.2	5.9	6.6	6.1	4.0	4.9	5.3	4.9	4.5
New England	2.0	5.7	4.7	6.0	6.0	2.4	3.6	4.0	3.9	3.5
Vermont	3.7	5.6	2.9	6.3	5.0	2.6	3.8	3.9	4.0	4.2
Unemployment (Percent)										
U.S.	6.0	5.5	5.1	4.6	4.6	5.4	5.8	5.4	4.9	4.8
New England	5.4	4.9	4.7	4.6	4.6	4.8	4.5	4.4	4.4	4.4
Vermont	4.5	3.7	3.5	3.7	3.9	4.3	4.6	4.3	3.8	3.7

Notes:
[1] 2007 variables are subject to further revision, and 2008 through 2012 values in this table reflect projected data as of May 2008.

Sources: Moody's Economy.com (U.S.), New England Economic Partnership November 2006 Forecast Update (New England, Vermont)

Looking more closely at the Vermont data, the State's recent comparative performance during the period of the housing market downturn in calendar years 2006 and 2007 has lagged the U.S. and New England regional averages somewhat, no doubt the effect of the larger than average significance that the housing market has had on the Vermont economy during the 2000s—mostly second home construction. As the housing market takes a couple of more calendar years to work through, it is logical to expect that the state's rate of output, job recovery-growth, and income growth performance would be somewhat more restrained than the U.S. average and the New England regional average. Then, as the real estate cycle in Vermont completes its recovery journey, the state would once again emerge as a faster than the U.S. and regional averages contributor to regional economic growth.

Although the State's relative economic performance in output, jobs, and personal income is expected to be mixed over the forecast period relative to the U.S. and New England averages, this May 2008 revised NEEP forecast expects that the state's unemployment rate will continue to track consistently below both the U.S. and New England averages. This is the continuation of a long-standing trend where the State's unemployment rate has consistently tracked below both the New England regional and U.S. averages. In fact, Vermont's unemployment rate has consistently tracked among the lowest of any state in the region over the most recent five year period. **This combination of lower than average payroll job growth, lower than average unemployment rate, and the state's aging population indicates that the state's low payroll job growth rate is apparently more a supply problem than a demand issue.**

Table 5 below highlights the direction and magnitude of the changes for payroll job growth and inflation-adjusted personal income in this Spring 2008 NEEP Outlook revision versus the previous six NEEP forecast cycles. Except for calendar year 2008 which is expected to be a year with a recession, the size of the forecast revisions are for the most part relatively small, falling within a +/-0.5 percentage point range for these key macro indicators. Outside of the near-term in calendar years 2008 and 2009, all of the revisions from 2010 and beyond are positive. This reflects a combination of downward revisions in the historical data in calendar year 2007 and the impact of the expected real estate cycle—and the fact there are hundreds of permitted second home units at many of the state's resort areas that are on the drawing boards. All that is needed is the beginning of a general economic recovery and the sense of normalcy in financial and credit markets to unleash this torrent of units waiting to meet the favorable demographics of the first wave of the soon to be retiring "baby-boom" generation.

On the sector-by-sector front, the highest rates of job growth over the 2008-12 forecast period are expected in the Education & Health Services sector (at +2.7% per year), the Professional & Business Services sector (at +1.5% per year), and the Information category (at +1.7% per year). Of the state's twelve major NAICS[9] categories, these are the ones that are expected to post +1.5% per year payroll job growth rates or better during the forecast period. Of the remaining categories, only the Other Services category is expected to post an annual growth rate north of 1.0% per year. Rounding out the categories in the plus column are Leisure and Hospitality (at +0.7% per year) and the Construction sector (at +0.5% per year). However, the Construction sector's positive performance is entirely an artifact of a late in the forecast time horizon return to normal in calendar years 2011 and 2012—a still highly uncertain part of this updated forecast. Employment change in the manufacturing sector is expected to remain south of the breakeven point, for the most part due to expected of the early 2008 recession despite the offsetting gains related to stronger export activity related to the recent declines in the value of the U.S. dollar.

Overall, seven of the state's twelve major NAICS categories are expected to recover-add jobs over the 2008-12 recession-recovery-expansion forecast period. After the manufacturing sector, the Government sector is expected to experience the weakest overall job change performance—at -0.7% per year over the 2008-12 time period. Overall, the +0.5% annual rate of increase in total payroll jobs over calendar 2008-12 time frame is a significant downshifting at only about 1/3 of the annual job growth rate experienced during the 1997-2002 period. In comparison to the 2002-07 time frame, the projected rate of job change is roughly the same as the rate experienced during the five year 2002-07 time frame.

[9] NAICS refers to the North American Industry Classification System.

Table 5: Historical Comparison of NEEP Forecasts for Vermont (May 2008)

Calendar Years	2004	2005	2006	2007	2008	2009	2010	2011
Real Gross State Product				<History<	>Forecast>			
November 2005	5.3	3.7	3.5	1.8	2.4	2.7		
May 2006	4.6	3.3	2.8	2.9	3.2	3.5	3.2	
November 2006	4.5	3.0	0.9	1.9	2.4	2.4	2.1	
May 2007	3.9	3.2	3.3	1.4	3.1	2.9	2.8	2.5
November 2007	4.1	2.5	2.8	-0.3	1.7	3.5	3.6	3.2
May 2008	4.1	2.5	2.8	1.7	0.5	2.7	3.6	3.6
Diff. Pct. Pts. 11/07-5/08	**0.0**	**0.0**	**0.0**	**2.0**	**-1.2**	**-0.8**	**0.0**	**0.4**
Payroll Job Growth								
November 2005	1.4	1.5	1.4	0.2	0.7	1.2		
May 2006	1.3	0.8	1.2	1.2	0.8	1.1	0.9	
November 2006	1.3	0.8	0.8	0.7	0.7	0.8	0.8	
May 2007	1.3	0.9	0.6	0.6	0.7	1.0	0.9	0.8
November 2007	1.3	0.9	0.6	0.6	0.3	0.7	0.9	0.7
May 2008	1.3	0.9	0.7	0.0	-0.6	0.3	1.0	0.9
Diff. Pct. Pts. 11/07-5/08	**0.0**	**0.0**	**0.1**	**-0.6**	**-0.9**	**-0.4**	**0.1**	**0.2**
Real Personal Income								
November 2005	3.6	2.9	0.8	-0.2	2.0	2.4		
May 2006	3.1	2.3	1.7	1.5	1.9	2.2	2.0	
November 2006	3.1	2.3	2.0	2.4	3.0	2.8	2.4	
May 2007	1.7	1.3	1.6	3.2	3.1	2.8	2.5	2.3
November 2007	1.6	1.3	1.9	3.0	2.7	2.5	2.4	2.2
May 2008	2.8	0.0	3.4	2.4	0.1	2.2	2.4	2.3
Diff. Pct. Pts. 11/07-5/08	**1.2**	**-1.3**	**1.5**	**-0.6**	**-2.6**	**-0.3**	**0.0**	**0.1**

Source: New England Economic Partnership (May 2008)

Forecast Risks—Mostly Downside…

Of course, any forecast of the economy that comes against the backdrop of a turning point in the economy and the still-unfolding national, regional and state economic downturns, has by its very nature a significant level of downside forecast risk. At this point the "short and shallow" forecast for the downturn in the economy still looks plausible and reasonable—and appears to be more than just wishful thinking. But the "short and shallow" forecast for the U.S., New England, and Vermont downturns is highly dependent on several factors, including: (1) additional policy actions by the Fed and fiscal policy to help off-set the negative impacts of the economic downturn and the on-going ripple effects of the housing market-sub-prime mortgage problem, (2) a continued subdued performance by inflation even though news on inflation had recently become more problematic recently—particularly for fossil fuels (see above), and (3) the avoidance of a major melt-down in U.S. and/or global financial markets.

Regarding the first, the Fed has now "moved center stage" in the current macro situation and it has a particularly difficult balancing act. The success of the Fed in deftly executing its balancing act, the success of the federal stimulus program, and the avoidance of a melt down in financial markets will certainly impact the pace and profile of the Vermont downturn and pending recovery. A more severe downturn or lengthy downturn for whatever reason will make the correction more significant than currently expected in this May 2008 NEEP forecast update.

Regarding the second, the combination of sharply rising commodity prices (including oil and food) and the falling dollar (which has pushed the price of imports higher) has resulted in an inflation rate that is somewhat higher than what is thought to be the Federal Reserve's comfort zone. Although the slowing U.S. economy has taken some of the upward pressure off recent price increases, the threat of rising inflation and inflationary expectations is too high to be ignored. Having inflation under control is crucial if the current housing market downturn requires the Fed and fiscal policy to take additional stimulus actions in order to avert a more serious downturn later this year.

Regarding the third, there is certainly no guarantee that the current somewhat uncertain state of global and U.S. financial markets will move closer to normalcy over the next six to twelve months. Currently, although markets have exhibited a somewhat greater degree of calm, they certainly cannot be considered "normal." Unless or until the current sub-prime mortgage situation is resolved (possibly after the next wave of resets occurs later this Summer and into the early Fall), look for financial markets to remain somewhat unsettled—thereby continuing to pose a threat to lengthening the current housing market downturn—and by implication posing perhaps the most serious threat to the health and performance of the U.S. economy over the coming year.

Jeffrey B. Carr, President
Zachary H. Sears, Economist
Economic & Policy Resources, Inc.
300 Cornerstone Drive, Suite 310
P.O. Box 1660
Williston, Vermont 05495-1660
(802) 878-0346