FitchRatings

Fitch Rates Vermont's Special Oblig Transportation Infra Bonds 'AA'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-New York-17 July 2013: Fitch Ratings assigns an 'AA' rating to the state of Vermont's $11.095 million special obligation transportation infrastructure bonds 2013, series A.

In addition, Fitch affirms the 'AA' rating on the state's $23.1 million outstanding special obligation transportation infrastructure bonds.

The Rating Outlook is Stable.

SECURITY
The bonds are special, limited obligations of the state, payable from Motor Fuel Transportation Infrastructure Assessments.

KEY RATING DRIVERS
--FIRST LIEN ON DEDICATED TAX REVENUE: The state of Vermont has granted to bondholders a first lien on dedicated gasoline and diesel fuel assessments. Pledged funds are segregated in the Transportation Infrastructure Bond (TIB) Fund. The expenditure of such funds is statutorily limited to debt service and, once debt service has been accumulated for the fiscal year, pay-go capital expenditures for transportation projects.
--ADEQUATE ADDITIONAL BONDS TEST: Additional leveraging of the pledged revenue stream requires 2x coverage of projected maximum annual debt service (MADS).
--SOLID PROJECTED DEBT SERVICE COVERAGE: Debt service coverage in the near term is well above the additional bonds test level. Preliminary fiscal 2013 revenues provide 9.08x coverage of pro-forma MADS after this sale and 3x coverage of estimated MADS on all debt the state projects having capacity to issue through fiscal 2018.
--FLEXIBILITY TO CONTROL ISSUANCE TO MAINTAIN COVERAGE: Should revenue growth be slower than projected, Fitch expects issuance would be slowed.

RATING SENSITIVITIES
DEBT SERVICE COVERAGE: The rating is sensitive to ongoing maintenance of solid coverage by pledged revenues.

CREDIT PROFILE
The 'AA' rating on Vermont's special obligation transportation infrastructure bonds reflects the first lien on pledged funds, the statutory limitation on the use of pledged funds for transportation purposes, and a satisfactory 2x additional bonds test, as well as the state's careful attention to debt affordability. Since the initial sale under this credit in 2010, revenue performance had modestly exceeded expectations until fiscal 2013, when preliminary results indicate actual collections were very slightly below the amount forecast as part of the July 2012 issuance. Fitch expects future debt issuance would be slowed should revenue growth notably lag expectations in the future.

Pledged revenues consist of a 2% assessment on the retail price (exclusive of all federal and state taxes, averaged over the preceding quarter) per gallon of motor vehicle gasoline sold in the state and a 3-cent per gallon assessment on diesel fuel sales in Vermont, with the assessment on gasoline representing about 90% of pledged revenues. In both cases, the levy is collected at the wholesale level along with other vehicle-related taxes. Both sources are relatively new, authorized and implemented in 2009 to fund transportation improvements across the state. However, the collection systems and structures for both sources are identical to the state's long-standing gasoline tax (in effect since 1923) and diesel tax (in effect in its current form since 1982).

TIB assessment revenues are segregated from all other Transportation Fund revenue and TIB Fund monies can only be expended for debt service on TIB fund bonds and, once debt service has been fully provided for in a given fiscal year, pay-as-you-go capital expenditures for transportation projects. Vermont has covenanted to fulfill the terms of the Trust Agreement and will not impair the rights or remedies of bondholders. Pursuant to the TIB statute, the assessments shall not be reduced below the rates in effect at the time of issuance of the bonds until the bonds have been paid.

Based on July 2010 estimates, the state expected to receive pledged revenues totaling $18 million in fiscal 2011. Actual results totaled $18.5 million. Receipts of $22.8 million in fiscal 2012 compared to the $19.8 million expected at the time of the 2010 sale, and fiscal 2013 preliminary revenues of $22.972 million are slightly below the $23.035 million forecast at last July's TIB bond issuance. MADS after the current sale is projected at $2.53 million (in fiscal 2025), rising to $7.656 million (in fiscal 2026) with estimated issuance through 2018. Pursuant to the indenture, the issuance of additional bonds requires no less than 2x coverage of MADS, calculated on a historical basis, and it is the state's policy to maintain coverage of no less than 3x.

The state utilizes additional fuel tax levies to fund transportation needs, and made recent statutory changes to enhance collections for its Transportation Fund. The state's non-TIB fuel taxes increased 5.9 cents per gallon of gasoline (effective May 1, 2013) and two cents per gallon of diesel (effective July 1, 2013). The statutory changes include revising the structure of the fuel taxes to shift them towards a percentage-based assessment, rather than relying entirely on a per-gallon tax, which should better insulate collections from the increasing fuel efficiency of vehicles. While the TIB assessments were not directly affected, the state's economist projects that the resulting higher gasoline prices could have a very modest negative drag on TIB collections. This price elasticity effect is included in the state's revenue projections. Fitch does not expect the effect to be material.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. State Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Additional Disclosure
Solicitation Status