New Issue – Book Entry Only

Ratings: *Moody's: Aaa*
Fitch: AAA
S&P: AA+
(See "RATINGS" herein)

In the opinion of Locke Lord LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$34,700,000
STATE OF VERMONT
General Obligation Bonds
2017 Series A
(Vermont Citizen Bonds)†
(Negotiated)

$71,395,000
STATE OF VERMONT
General Obligation Bonds
2017 Series B‡
(Competitive)

Dated: Date of Delivery **Due: August 15, as shown on the inside cover hereof**

The 2017 Series A Bonds (the "Series A Bonds") and the 2017 Series B Bonds (the "Series B Bonds" and together with the Series A Bonds, the "Bonds") will be issued as fully registered Bonds, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearinghouse for securities transactions. Purchases of beneficial interests in the Bonds will be made in book-entry form (without certificates) in the denomination of (i) in the case of the Series A Bonds, $1,000 or any integral multiple thereof, and (ii) in the case of the Series B Bonds, $5,000 or any integral multiple thereof. So long as DTC, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co., which will remit such payments to DTC participants, which in return will remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing February 15, 2018. The Bonds will be subject to redemption prior to maturity as more fully described herein.

The Bonds will be general obligations of the State of Vermont and the full faith and credit of the State are pledged to the payment of principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

The Bonds are offered subject to the final approving opinion of Locke Lord LLP, Boston, Massachusetts, and to certain other conditions referred to herein and, with respect to the Series B Bonds, in the Official Notice of Sale. Certain legal matters will be passed upon for the Series A Underwriters by Nixon Peabody LLP, Boston, Massachusetts. Public Resources Advisory Group serves as Financial Advisor to the State. It is expected that the Bonds will be available for delivery in book-entry form through the facilities of DTC in New York, New York on or about September 13, 2017.

Morgan Stanley

BofA Merrill Lynch **Citigroup** **J.P. Morgan**

August 22, 2017 (with respect to the Series A Bonds)
August 23, 2017 (with respect to the Series B Bonds)

† Only the Series A Bonds will be purchased by the Underwriters listed above, as described under "UNDERWRITING OF THE SERIES A BONDS" herein.

‡ The Series B Bonds were sold on a competitive sale basis as described herein under "COMPETITIVE SALE OF SERIES B BONDS."

$34,700,000
STATE OF VERMONT
General Obligation Bonds
2017 Series A (VERMONT CITIZEN BONDS)

Due August 15	Principal Amount	Interest Rate	Yield	CUSIP† 924258	Due August 15	Principal Amount	Interest Rate	Yield	CUSIP† 924258
2018	$3,775,000	2.00%	0.78%	X27	2028	$1,070,000	2.125%	2.24%	Y42
2019	1,590,000	3.00	0.86	X35	2029	2,820,000	5.000	2.19*	Y59
2020	2,990,000	4.00	0.96	X43	2030	395,000	2.500	2.59	Y67
2021	1,575,000	5.00	1.06	X50	2031	1,575,000	4.000	2.61*	Y75
2022	1,725,000	2.25	1.17	X68	2032	1,100,000	5.000	2.42*	Y83
2023	1,080,000	3.00	1.33	X76	2033	1,000,000	5.000	2.48*	Y91
2024	3,065,000	5.00	1.50	X84	2034	700,000	4.000	2.80*	Z25
2025	990,000	4.00	1.67	X92	2035	2,315,000	3.125	3.20	Z33
2026	390,000	3.00	1.81	Y26	2036	3,545,000	3.250	3.25	Z41
2027	1,500,000	5.00	1.97	Y34	2037	1,500,000	5.000	2.65*	Z58

$71,395,000
STATE OF VERMONT
General Obligation Bonds
2017 Series B

Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP† 924258	Due August 15	Principal Amount	Interest Rate	Price or Yield	CUSIP† 924258
2018	$1,530,000	5.00%	0.76%	Z66	2028	$4,235,000	2.25%	2.050%*	2G0
2019	3,715,000	5.00	0.82	Z74	2029	2,485,000	2.25	2.150*	2H8
2020	2,315,000	5.00	0.91	Z82	2030	4,910,000	3.00	2.450*	2J4
2021	3,730,000	5.00	1.00	Z90	2031	3,730,000	2.50	98.000	2K1
2022	3,580,000	5.00	1.10	2A3	2032	4,205,000	3.00	2.800*	2L9
2023	4,225,000	5.00	1.25	2B1	2033	4,305,000	3.00	2.880*	2M7
2024	2,240,000	5.00	1.42	2C9	2034	4,605,000	3.00	2.950*	2N5
2025	4,315,000	5.00	1.58	2D7	2035	2,990,000	3.00	3.000	2P0
2026	4,915,000	5.00	1.72	2E5	2036	1,760,000	3.00	3.050	2Q8
2027	3,805,000	5.00	1.87	2F2	2037	3,800,000	3.00	3.100	2R6

* Priced at the stated yield to the first optional call date of August 15, 2027 at a redemption price of 100%. See "THE BONDS – Redemption Provisions" herein.

STATE OF VERMONT

ELECTED OFFICERS

Name

PHILIP B. SCOTT, *Governor*

DAVID ZUCKERMAN, *Lieutenant Governor*

ELIZABETH A. PEARCE, *Treasurer*

JAMES C. CONDOS, *Secretary of State*

DOUGLAS R. HOFFER, *Auditor of Accounts*

THOMAS J. DONOVAN, JR., *Attorney General*

BOND COUNSEL
Locke Lord LLP
Boston, Massachusetts

FINANCIAL ADVISOR
Public Resources Advisory Group
Media, Pennsylvania

In making an investment decision, investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. The securities described in this Official Statement have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

No dealer, broker, salesperson, or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the State of Vermont since the date hereof.

This Official Statement contains statements that, to the extent they are not recitations of historical fact, constitute "forward-looking statements." In this respect, the words "estimate," "project," "anticipate," "expect," "intend," "believe" and similar expressions are intended to identify forward-looking statements. A number of factors affecting the State's financial results could cause actual results to differ materially from those stated in the forward-looking statements.

In connection with the offering of the Series A Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series A Bonds offered hereby at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. Subject to any restrictions as might be set forth in the Contract of Purchase, the Underwriters may offer and sell the Series A Bonds to certain dealers and certain dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The Underwriters of the Series A Bonds have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement (excluding the information related solely to the Series B Bonds) in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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STATE OF VERMONT

$34,700,000	**$71,395,000**
General Obligation Bonds	**General Obligation Bonds**
2017 SERIES A	**2017 SERIES B**
(VERMONT CITIZEN BONDS)	**(Competitive)**
(Negotiated)	

INTRODUCTORY STATEMENT

This Official Statement of the State of Vermont (the "State") is provided for the purpose of presenting certain information relating to the State in connection with the sale of $34,700,000 aggregate principal amount of its General Obligation Bonds, 2017 Series A (Vermont Citizen Bonds) (the "Series A Bonds") and $71,395,000 aggregate principal amount of its General Obligation Bonds, 2017 Series B (the "Series B Bonds," and together with the Series A Bonds, the "Bonds").

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all reference to the definitive forms of the Bonds and their statutory authority.

Payment and Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds. See "THE BONDS – Security for the Bonds" herein.

THE BONDS

Description of the Bonds

The Bonds will be dated their date of delivery and will mature on August 15 in each of the years as set forth on the inside cover page of this Official Statement. The Bonds will bear interest from their date until their maturity at the rates per annum set forth on the inside cover page of this Official Statement.

The Bonds will be issued by means of a book-entry system evidencing the beneficial ownership therein in principal amounts of (i) $1,000 or any integral multiple thereof, with respect to the Series A Bonds, and (ii) $5,000 or any integral multiple thereof, with respect to the Series B Bonds, on the records of the Depository Trust Company, New York, New York ("DTC") and its Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Principal and premium, if any, when due, will be payable to each registered owner at the principal office of People's United Bank, N.A. (formerly Chittenden Trust Company), Burlington, Vermont, as Paying Agent (the "Paying Agent") upon presentation and surrender of the Bonds. Interest on the Bonds will be payable semiannually on February 15 and August 15, commencing February 15, 2018, by check or draft mailed by the Paying Agent to each registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books of the State maintained by the Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, principal of and interest on the Bonds will be paid in immediately available funds, directly to DTC or such nominee as registered owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by Participants of DTC will be the responsibility of such Participants and other nominees of beneficial owners. The State will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY ONLY SYSTEM" herein.

Authorization and Purpose

The Bonds are authorized to be issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated ("General Obligation Bond Law") and pursuant to specific Acts of the General Assembly. The following statutes and Acts of the General Assembly set forth the capital purposes of the State for which the proceeds of the Bonds (consisting of the aggregate par amount thereof plus original issue premium thereon, if any) are expected to be applied, provided that the State expects that under certain circumstances proceeds of the Bonds, to the extent not expended for the purposes referenced below, may be expended for such capital projects as may be authorized by the General Assembly. See "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization." Under State law, the State Treasurer is authorized to transfer unspent proceeds from the sale of bonds, including the Bonds, from the projects for which such bonds were initially issued, to other capital projects of the State heretofore or hereafter authorized by the General Assembly.

Act 26 of 2015
(as amended by Act 160 of 2016)

Section 2	State Buildings – Various Projects		$28,504,112
Section 3	Administration – Various Projects		10,391,473
Section 4	Human Services – Various Projects		200,000
Section 5	Judiciary		4,830,000
Section 6	Commerce and Community Development		346,138
Section 7	Grant Programs		1,483,451
Section 9	University of Vermont – Major Maintenance		1,900,000
Section 10	Vermont State Colleges – Major Maintenance		3,050,000
Section 11	Natural Resources		18,398,421
Section 12	Military		1,058,000
Section 13	Public Safety		1,180,000
Section 14	Agriculture, Food and Markets		1,501,974
Section 15	Vermont Rural Fire Protection		125,000
Section 18	Vermont Housing and Conservation Board		4,000,000
Section 20	General Assembly – Various Projects		145,000
Section 20a	Public Service		300,000

Act 84 of 2017

Section 2	State Buildings – Various Projects		9,780,805
Section 3	Human Services – Various Projects		253,885
Section 4	Judiciary		3,050,000
Section 5	Commerce and Community Development		173,013
Section 6	Grant Programs		742,770
Section 8	University of Vermont – Major Maintenance		1,400,000
Section 9	Vermont State Colleges – Major Maintenance		2,000,000
Section 10	Natural Resources		6,325,491
Section 11	Clean Water Initiatives		11,609,265
Section 12	Military		450,000
Section 13	Public Safety		1,927,000
Section 14	Agriculture, Food and Markets		25,648
Section 15	Vermont Rural Fire Protection		125,000
Section 16	Vermont Veterans' Home		390,000
Section 17	Vermont Housing and Conservation Board		1,200,000
		Total:	$116,866,446

Security for the Bonds

The Bonds will be general obligations of the State and the full faith and credit of the State will be pledged to the payment of the principal of and interest on the Bonds.

Pursuant to State law, the Treasurer of the State is required to pay the principal of, and interest on, the Bonds as the same become due without further order or authority. The amount necessary each year to pay the maturing principal of, and interest on, the Bonds is required to be included in and made a part of the annual appropriation bill for the expense of State Government. State law requires that principal of, and interest on, the Bonds that may come due before appropriation for the payment thereof has been made are to be paid from the General Fund, the Transportation Fund or other applicable special fund.

For the payment of principal of and interest on general obligation indebtedness, including the Bonds, the State has the power to levy taxes, including taxes on all taxable property and income in the State, without limitation as to rate or amount. For a description of the State's sources of revenues, see "STATE FUNDS AND REVENUES" and for a more complete discussion of the authorization of general obligation bonds and the provisions for payment thereof, see "STATE INDEBTEDNESS – State Indebtedness and Procedure for Authorization" herein.

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date, provided that, with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the registered owners at least ten (10) days before the special record date.

Redemption Provisions

The Bonds maturing on and prior to August 15, 2027 will not be subject to redemption prior to maturity. The Bonds maturing after August 15, 2027 will be subject to redemption prior to maturity, at the option of the State, on and after August 15, 2027, either in whole or in part at any time and by lot within a series and maturity, at a redemption price of 100% of the principal amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

Selection of Bonds to be Redeemed in Partial Redemption

If less than all of the Bonds of a particular series and maturity and bearing interest at a particular interest rate are called for redemption, the applicable Bonds within such series and maturity to be redeemed will be selected by DTC or any successor securities depository pursuant to its rules and procedures or, if the book-entry system is discontinued, will be selected by the State by lot or in any customary manner as the State in its discretion may determine.

Notice of Redemption

Notice of redemption of Bonds, specifying the maturities, CUSIP numbers and dates of the Bonds to be redeemed, the redemption date, the redemption prices, expressed as a percentage of the principal amount, and the place or places of payment of the redemption price and the numbers and portions of the Bonds to be redeemed, shall be mailed, postage prepaid, by the Paying Agent not more than 60 days and not less than 30 days prior to the date set for redemption to the registered owners of any Bonds or portions thereof to be redeemed, at their last addresses appearing on the registry books kept by the Paying Agent. Failure to mail such notice to the owner of any Bond will not affect the redemption of any other Bonds. If moneys for the redemption are held by the Paying Agent on the redemption date and if notice of the redemption shall have been duly mailed, then from and after the redemption date interest on the Bonds (or the portions thereof) called for redemption shall cease to accrue.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series and maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the

Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard and Poor's rating of AA+. The DTC Rules applicable to Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners or, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds of a series and maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in Bonds of such series and maturity to be redeemed, unless other arrangements are made between DTC and the State.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the State or Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the State or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Bonds (other than under the caption "TAX MATTERS") shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

When reference is made to any action that is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent to DTC only.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the State believes to be reliable, but the State takes no responsibility for the accuracy thereof.

The State cannot and does not give any assurance that DTC will distribute to Participants, or that Participants or others will distribute to Beneficial Owners, payments of principal of, interest and premium, if any, on the Bonds, or any other notice or that they will do so on a timely basis or will serve or act in the manner described in this Official Statement. The State is not responsible or liable for the failure of DTC or any Participant to make any payments or give any notice to a Beneficial Owner with respect to the Bonds or any error or delay relating thereto.

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STATE GOVERNMENT

Governmental Organization

The Constitution of Vermont provides for three branches of Government—the Legislative, the Executive and the Judicial. Vermont's statewide elected officers are the Governor, Lieutenant Governor, Treasurer, Secretary of State, Auditor of Accounts and the Attorney General. All are elected at general elections for a term of two years, and each may succeed himself or herself in office with no limitation on terms.

<u>The Legislative Branch</u>: The bicameral General Assembly of Vermont convenes biennially with an adjourned session in the biennium. The House of Representatives has 150 members and the Senate has 30 senators. Members of the House of Representatives and Senate are elected for two-year terms in each general election. Bills for the raising of revenues must originate in the House of Representatives but may be amended or rejected by the Senate.

<u>The Executive Branch</u>: All statewide elected officers reside in the Executive Branch. The Governor is responsible for the faithful execution of all laws enacted by the Legislature and the management of the major departments and agencies of the Executive Branch, briefly described as follows:

(1) Agency of Administration: The Agency of Administration centralizes and integrates certain administrative and fiscal functions and activities of State government. The Agency is composed of the Office of the Secretary, the Department of Taxes, the Department of Finance and Management, the Department of Human Resources, the Department of Libraries and the Department of Buildings and General Services.

(2) Agency of Transportation: The Agency of Transportation consists of three functional divisions that are responsible for the planning, design, construction, maintenance and operation of state highways, railroads, and airports; and the Department of Motor Vehicles, which is responsible for the administration of motor vehicle registrations, driver's licenses and other motor vehicle regulations. The Agency of Transportation is responsible for the administration and collection of the motor vehicle purchase and use and motor fuel taxes as well as motor vehicle registrations and renewals and driver's license fees.

(3) Agency of Education: The Agency of Education is under the direction and supervision of the Secretary of Education, who is appointed by the Governor with the advice and consent of the Senate. The Secretary serves at the pleasure of the Governor and is a member of the Governor's cabinet. The principal statutory duties of the Secretary include the following: identifying the educational goals of the public schools, evaluating the program of instruction in the public schools, supervising and directing the execution of the laws relating to the public schools, and supervising the expenditure and distribution of all money appropriated by the State for public elementary and high schools. The Secretary serves on the State Board of Education as a nonvoting member. While not part of the Agency of Education, the State Board of Education evaluates education policy proposals, including those presented by the Governor or the Secretary, engages local school board members and the broader education community, establishes and advances education policy for the State and has the power to establish such advisory commissions as in the judgment of the Board will be of assistance to it in carrying out its duties. The Board also has authority, among other things, to enter into agreements with school districts, municipalities, states and the United States for services, educational programs, or research projects; and to examine and determine all appeals made to it. The Board consists of ten members appointed by the Governor with the advice and consent of the Senate.

(4) Agency of Natural Resources: The Agency of Natural Resources consists of the Office of the Secretary, the Department of Fish and Wildlife, the Department of Forests, Parks and Recreation, and the Department of Environmental Conservation. While not part of the Agency, the Natural Resources Board provides review and permitting for land use and development.

(5) Agency of Commerce and Community Development: The resources of the Agency of Commerce and Community Development are utilized to foster continued improvement in the Vermont economy and provide assistance to Vermont communities in their efforts to plan for the future. The

Agency is composed of the Department of Economic Development, the Department of Housing and Community Development, the Department of Tourism and Marketing, the Office of the Chief Marketing Officer and Vermont Life Magazine.

(6) Agency of Human Services: The Agency of Human Services (AHS) administers the programs responsible for meeting the human service needs of Vermont citizens. The Agency is composed of the Office of the Secretary, and the Department of Disabilities, Aging and Independent Living, the Department of Corrections, the Department of Health, the Department of Mental Health, the Department of Children and Families and the Department of Vermont Health Access.

(7) Agency of Digital Services: The Agency of Digital Services (formerly the Department of Information and Innovation) is about providing cost-effective, customer-focused IT services and solutions to enable better government. At the core of the Agency, the Divisions of Shared Services, Data, Security, Enterprise Architecture and Project Management help ensure information technology services are standardized, coordinated, secure and cost-effective across Vermont State government.

(8) Other Agencies and Departments: There are a number of other agencies and departments responsible for other service areas within the Executive Branch as follows: the Agency of Agriculture, Food and Markets; the Department of Financial Regulation (formerly Banking, Insurance, Securities and Health Care Administration); the Department of Labor; the Department of Liquor Control; the Lottery Commission; the Military Department; the Defender General; the Department of Public Safety; the Department of Public Service, the Public Service Board, and the Green Mountain Care Board.

<u>The Judicial Branch</u>: The Judicial Branch of the State is composed of a Supreme Court, a Superior Court consisting of 14 units, one corresponding to each county, and a Judicial Bureau. The Supreme Court has a Chief Justice and four Associate Justices and is the appellate court for the State. The Superior Court has five jurisdictional divisions: Civil, Criminal, Environmental, Family and Probate. There are 32 judges sitting in the Civil, Family and Criminal divisions of the Superior Court, including an Administrative Judge. The Family Division has five magistrates. The Environmental Division has two judges and exercises statewide jurisdiction within the Superior Court. All judges and magistrates are appointed by the Governor with the advice and consent of the Senate for six-year terms. At the end of each six-year term, the question of their continuance in office is submitted to the General Assembly in a process known as retention. The Judicial Bureau has two hearing officers appointed by the Administrative Judge. An elected Assistant Judge with appropriate training may also be assigned to act as a Hearing Officer in the Judicial Bureau or as a side judge in the Civil and Family divisions. The Probate Division has a probate judge in each of the 14 units of the Superior Court. The citizens of each county elect one probate judge to serve in the Probate Division for a term of four years.

There are 14 counties in the State. Their administration consists of two Assistant Judges elected from each county. Other county level officials include a State's Attorney and a Sheriff, each of whom is elected every four years. County Clerks and County Treasurers are appointed by the Assistant Judges. County government is more titular than executor in that the major responsibilities and functions of government pass directly from the State to the cities and towns.

STATE ECONOMY

General

Vermont, which is known as the Green Mountain State, was first settled in 1666 when the French built Fort St. Anne on Isle LaMotte in Lake Champlain. The first English settlement was in 1690 at a location that is now the southern Vermont town of Vernon. Vermont ratified the United States Constitution on January 10, 1791 and joined the Union as the fourteenth State on March 4 of the same year. Rural in character, Vermont measures 9,615 square miles (including land and water area), ranking the State 45th in terms of land and water area among the 50 states. In terms of land area only, Vermont's 9,249 square miles ranks it 43rd among the 50 states. Vermont's population as measured by the last decennial Census on April 1, 2010 was 625,741, ranking the State 49th among the fifty states—unchanged from the 2000 and 1990 Censuses (U.S. Bureau of the Census). The State capital is Montpelier, with a population of 8,035 as of April 1, 2010. The State's largest cities and towns as of the 2010 Census were the City of Burlington, population 42,417; the Town of Essex, population 19,957; the City of South Burlington, population

17,904; the Town of Colchester, population 17,067; the City of Rutland, population 16,495; and the Town of Bennington, population 15,764.

Demographic Trends

Mid-year estimates from the U.S. Bureau of the Census for 2016 (the most recent data available) show that Vermont's population decreased by an estimated 1,494 persons between July 1, 2015 and July 1, 2016, representing a 0.2% rate of population decline. That decrease contrasts with the regional and national trends, where the U.S. as a whole experienced an estimated 0.7% rate of increase in the nation's resident population, and the New England region experienced a 0.2% rate of population increase. Over the 26-year period between July 1, 1990 and July 1, 2016, Vermont had an estimated growth of 60,068 resident persons (rounded) or an average yearly rate of 0.4% per year. This experience was in line with the 0.4% rate of growth per year for the New England region as a whole. However, Vermont's rate of population increase over the period was somewhat slower than the average national growth rate of 0.8% over the same 1990–2016 period. The resident population change experienced in Vermont over the past 26 years is slower than that of the 1970s and 1980s, as the State's population has aged and fertility rates have declined. This is a reflection of declining birthrates across the New England region as a whole, and is consistent with national declining birth rate trends that have been characteristic of key components that make up the State's population.

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Table 1
Comparative Population Growth
Vermont, New England, United States
1970–2016

	Vermont		New England[1]		United States	
Year	Population[2] (in Thousands)	Annual Percent Increase/ Decrease Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]	Population[2] (in Thousands)	Annual Percent Increase Over Preceding Period[3]
2016	625	(0.2)%	14,736	0.2%	323,128	0.7%
2015	626	(0.1)	14,710	0.2	320,897	0.7
2014	627	0.0	14,683	0.3	318,563	0.7
2013	627	0.1	14,635	0.4	316,205	0.7
2012	626	0.0	14,581	0.4	313,998	0.7
2011	627	0.1	14,528	0.4	311,663	0.7
2010	626	0.2	14,469	0.5	309,348	0.8
2009	625	0.1	14,404	0.4	306,772	0.9
2008	624	0.1	14,340	0.4	304,094	1.0
2007	623	0.1	14,279	0.2	301,231	1.0
2006	623	0.3	14,246	0.2	298,380	1.0
2005	621	0.2	14,217	0.1	295,517	0.9
2004	620	0.3	14,207	0.2	292,805	0.9
2003	618	0.4	14,182	0.4	290,108	0.9
2002	615	0.5	14,122	0.6	287,625	0.9
2001	612	0.4	14,041	0.7	284,969	1.0
2000	610	0.8	13,950	0.5	282,162	1.2
1990	565	1.0	13,220	0.7	249,464	0.9
1980	513	1.4	12,372	0.4	227,225	1.1
1970	446	--	11,878	--	203,792	--

1 The New England states are: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
2 All population estimates are as of July 1 of the year indicated.
3 For 2001 through 2016, the annual percentage increase is calculated versus the previous year. For 1980, 1990 and 2000, the annual percentage increase is the average annual increase during the preceding ten-year period.
SOURCE: U.S. Department of Commerce, Bureau of the Census.

Data from the U.S. Bureau of the Census indicate that in 2016 (the latest data available)the median age of the Vermont population was 42.7 years, 4.8 years older than the national average median age of 37.9 years. Among the various age groups, Vermont had a proportionally higher concentration of persons in the 18 years and older age category (at 81.0% of the State's population versus 77.2% of the total population of the United States) in 2016. The State also had a concentration that was slightly higher than the New England regional average in the 18 years and older age category in 2016 (at 80.8% for Vermont versus 79.8% for the New England region). Vermont had a below average age concentration in the under 5 years age category (at 4.9% of the State's total population) relative to both the New England average (at 5.2% of the New England regional population) and the U.S. average (at 6.2% of the total U.S. population). The percentage of Vermont's population in the over 65 years age category (at 18.1% of the State population) in 2016 was higher than that for the U.S. population as a whole (at 15.2% of the U.S. population overall) in 2016, and the New England average (at 16.4% of the total). In addition, the percentage of Vermont's population in 2016 aged 45-64 years (at 29.3% of the State's population) was higher than both the percentage of the New England regional population (at 28.4% of the total) and the U.S. population overall (at 26.1% of the total) in 2016. Vermont had slightly more of its population in the 85 years and older category (at 2.3% of the State total) relative to the U.S. population (at 2.0% of the U.S. population) in 2016, but a slightly lower percentage than the New England region overall (at 2.4% of the New England regional population) in 2016.

As reflected in Table 2 below, the Vermont population in 2015 (the latest data available) had a significantly higher level of educational attainment than the U.S. population as a whole according to the latest data from the U.S. Bureau of the Census (2015 American Community Survey).

Table 2
Educational Attainment Vermont and U.S.
Persons Aged 25 Years and Over
As of Calendar Year 2015

Level of Education	Percent of Vermont Population	Vermont Rank in U.S.	Percent of U.S. Population
HIGH SCHOOL:			
High School Graduate or More	91.7%	7th	87.1%
COLLEGE:			
Bachelor's Degree or More	36.9%	8th	30.6%

SOURCE: U.S. Department of Commerce, Bureau of the Census; 2015 American Community Survey.

Data from the U.S. Bureau of the Census for 2016 (the latest data available) also indicate that Vermont's population remains primarily rural in character. A total of 65.2% of the State's population lived outside of the State's single metropolitan area—the highest percentage among the 50 states. Vermont's percentage of persons living outside of metropolitan areas as of July 1, 2016 was over four times the national and New England average percentages and over ten times the northeastern average percentages.

Table 3
Metropolitan vs. Non-Metropolitan Area Populations
As of July 1, 2016

	Metropolitan Population		Non-Metropolitan Population	
	Total (in Thousands)	Percentage	Total (in Thousands)	Percentage
United States	277,080	85.7%	46,048	14.3%
Northeast	52,722	93.8	3,487	6.2
New England	13,008	88.3	1,727	11.7
Vermont	217	34.8	407	65.2

SOURCE: U.S. Department of Commerce, Bureau of the Census, Geography Division.

Property Valuation

The Vermont Department of Taxes, through its Division of Property Valuation and Review, annually conducts a study of all the grand lists (i.e., tax rolls) prepared by the municipalities in the State. The purpose of this study, commonly known as the "Equalization Study," is to derive estimates of the fair market value of all of the property in the State. These values are then used as one of the primary factors to determine each municipality's school property tax rates. Since most municipalities' grand lists are not at the statutorily required 100 percent fair market value standard in any given year, the study attempts to bring all municipalities' grand lists to 100 percent of market value, thereby "equalizing" the tax rolls statewide.

In general, equalized property values were determined by comparing grand list values to real estate sales or property appraisals and deriving the ratio representing the level of appraisal for each municipality. The resulting estimates of full property value in each municipality were then aggregated to derive an estimate of the market value of all taxable property in the State.

Changes to Vermont law due to Act 178 of the 1996 Session of the General Assembly (changing the agricultural and forest taxation program to reflect the value of property based on its "Current Use") and Act 60 of the 1997 Session (changing the method of education financing in Vermont) altered the nature of determining the value of taxable property under Vermont law. The changes had the following effects: (1) the Current Use program requires municipalities to assess property enrolled in that program at their "use" value as opposed to market value; and (2) the definition of taxable property now reflects only the total fair market value or use value of property that is subject to taxation for school purposes.

The State's Current Use program provides for property taxation of active agricultural land, farm buildings, conservation and managed forest land at their productive use value rather than fair market value. Use value is almost always lower than market value resulting in lower values included in the grand lists.

Changes in the composition of the grand list under Act 60 also reduced the value of total taxable property for funding schools. This resulted primarily from the exemption of personal property such as machinery and equipment from the education property tax.

Table 4 sets forth the fair market value of all taxable property in the State as certified by the Division of Property Valuation and Review from 1990 to 1995 and comparable estimates for 1997 through 2015 (the most recent data available). The State experienced a significant increase in estimated fair market value between 2002 and 2008 largely due to strong price appreciation in residential, commercial, and second home markets. Residential price appreciation, second home price appreciation, and valuations for some commercial properties first slowed and then declined during the most recent U.S. and State economic downturns.[1] As of April 1, 2015, despite initial economic recovery from the last recession, equalized property values have declined slightly from the previous year.

The estimates from 1997–2015 include an estimate of the fair market value of property enrolled in the Current Use Program. The current use values have been estimated by, but have not been certified by, the Division of Property Valuation and Review of the Vermont Department of Taxes. The estimates are based on a weighted average of the statewide municipal Common Level of Appraisal (CLA) and are not a calculation at the parcel or town-wide level.

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[1] During the period, however, housing prices in Vermont as measured by the Federal Housing Finance Agency (FHFA) Home Price Index declined by only 1.2% from their price peak in 2008 to the fourth quarter of calendar year 2016. This was the second lowest price decline experienced among the six New England states, after Massachusetts, and among the lowest among the 50 states from the pre-recession peak to the most recent quarter where comparable data for all 50 states are available.

Table 4
Equalized Property Values
1990–2015

Equalization Date As of April 1,	Fair Market Value
2015**	$82,906,587,230
2014**	83,014,752,230
2013**	82,358,419,039
2012**	82,568,773,344
2011**	83,636,887,446
2010**	85,260,877,760
2009**	86,705,197,176
2008**	84,799,241,954
2007**	79,214,611,562
2006**	72,513,809,335
2005**	64,306,356,880
2004**	56,756,181,626
2003**	51,168,536,723
2002**	46,929,258,396
2001**	43,942,727,721
2000**	41,358,590,703
1999**	39,053,369,590
1998**	38,967,094,160
1997**	38,399,375,459
1995*	37,558,139,758
1993*	36,471,723,016
1992	36,766,102,513
1991	35,286,508,007
1990	31,300,748,717

* Beginning in 1993, the Fair Market Value and Assessed Value of all taxable property in the State were equalized every two years. Beginning in 1998, equalization studies were again conducted annually by the Division of Property Valuation and Review.

** Estimated, based on an estimate for the difference between the Fair Market Value and the Use Value of property enrolled in the Current Use Program. The estimated fair market value of property exempted due to enrollment in the Current Use Program was $744.8 million in 1997, $792.3 million in 1998, $816.7 million in 1999, $866.1 million in 2000, $924.4 million in 2001, $1,157.9 million in 2002, $1,205.0 million in 2003, $1,661.1 million in 2004, $1,853.7 million in 2005, $2,155.0 million in 2006, $2,458.8 million in 2007, $2,726.6 million in 2008, $2,938.6 million in 2009, $3,028.7 million in 2010, $2,983.0 million in 2011, $3,003.0 million in 2012, $3,013.7 million in 2013, $3,029.6 million in 2014 and $2,988.5 million in 2015.

SOURCE: Vermont Tax Department, Division of Property Valuation and Review, Annual Report.

Economic Activity

The opinions set forth in this section are provided by Economic & Policy Resources, Inc. (“EPR”), Williston, Vermont, based upon such firm’s independent evaluation of economic information and trends in the State of Vermont and the United States. The firm serves as a consultant to the State of Vermont with responsibilities as to matters of the analysis of economic trends and economic forecasting, as well as providing technical forecasting services to the State with respect to the various short-term and longer-term consensus revenue estimating processes performed pursuant to Vermont statute.

The description of the economic forecast for the United States and Vermont is based on the same underlying forecast contained under “The Moody’s Analytics National Economic Forecast Assumptions” herein that is provided by Moody’s Analytics of West Chester, Pennsylvania, as adjusted by the consensus revenue forecasting process between EPR, as the economist for the Administration, and Kavet, Rockler & Associates, LLC (“Kavet”), as the economist for the State's Legislative Joint Fiscal Office (the "JFO"). When available, the consensus forecast utilizes the State economic forecast developed as part of the State's participation in the New England Economic Partnership (NEEP), a regional, non-profit economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. Because of the reduced availability of the annual economic forecasts for the New England Region and the State over the two years through the NEEP organization, the State economic forecast through calendar year 2019 as part of the State's consensus forecasting process was developed using an on-line modeling capability provided by Moody's Analytics as subscribed to by the JFO and the Administration. The on-line forecasting capability allows timely, customized State forecasts with modeling capability similar to the NEEP capability. This forecasting software, however, does not include regional comparison data as is typically available with the NEEP forecast. The State macroeconomic forecast was developed cooperatively by Kavet and the Administration through its association with EPR. For more information on the consensus revenue forecasting process, see "REVENUE ESTIMATES" herein.

The U.S. Economic Situation: Through March 2017, the U.S. economy has continued on its now eight-year positive, now expansionary path, with inflation-adjusted output growing by 1.4% between January and March. Between January and June of calendar year 2017, U.S. jobs grew by an average of approximately 180,000 new payroll jobs each month, which is nearly identical to the same period one year ago, but is still a more moderate level of payroll jobs additions as compared to the same January to June period during calendar years 2014 and 2015. Even so, June represented the 81st consecutive month of payroll job additions—an all-time record for U.S. labor markets for this important labor market indicator. If the current U.S. economic up-cycle expansion lasts another two years, it will mark the current upturn as the longest sustained period of forward progress in our nation's economic history (dating back to the mid-1850s). The current U.S. economic up-cycle's record length is in part due to the restrained rates of output growth and other economic performance measures, which have been among the most restrained in U.S. history. Since 2009, the U.S. economy has experienced inflation-adjusted output increases of roughly 2.0% per year and average annual rates of non-farm payroll job increases of roughly 1.5%. These rates compare unfavorably to the more than 3.5% annual rate of change in inflation-adjusted output and the more than 2.0% annual average rate of change in payroll jobs that characterized the longest prior "trough to peak" business cycle covering the period from March 1991 to March 2001.

This profile of economic activity has been helpful to U.S. equity prices, allowing the financial markets to avoid a sharp rise in interest rates or the type of declines in earnings that historically have threatened share prices. With the economy essentially in a "slow growth mode," inflation remains under control and this has allowed monetary policy to employ a gradual approach to past and prospective tightening actions. At the same time, there also appears to be little excess demand pressuring the capacity, thereby allowing the U.S. economy to avoid any signs of strain or overheating—a common precursor to economic downturns.

On the policy front, there has been a significant amount of ambiguity relating to potential outcomes of major policy initiative-changes in Washington. Key issues such as health care reform, tax reform, re-negotiation of international trade agreements, re-structuring of foreign policy and aid payments, and the potential for increased infrastructure investment have not lived up to the early post-election, growth-promoting optimism. Although there has been noticeable forward progress on some regulatory fronts, the recent policy uncertainties and negative policy outcomes regarding immigration have resulted in significant and downward adjustments to most macroeconomic forecasts. This includes the U.S. baseline macroeconomic forecast from Moody's Analytics, which was used as the underlying U.S. macro forecast for the State's consensus economic and revenue forecast update. Relative to the U.S. macroeconomic forecasts published in the initial period after the national elections in November 2016, near-term prospects for U.S. economic growth have been adjusted back to pre-election levels, reflecting the erosion in optimism that occurs when new growth initiatives are delayed or become viewed as being unlikely. While the original heightened economic impacts associated with the post-election, pro-growth initiatives were not large by historical standards because they were being proposed at a time when the U.S. economy was at near full-employment, the size of the downward adjustment for at least the initial years of the forecast period were significant. Instead of near-term rates of real GDP growth rates heating up and eclipsing 3.0% annually during the initial stages of the forecast period, near-term U.S. economic forecasts now appear to be focused on the durability of the continuation of a slow, steady expansion that recently became the third longest upturn in U.S. history.

So far, recent developments in financial and international markets, such as the "Brexit" vote, political unrest in Venezuela, and international tensions over Syria and North Korea, have not had a significant negative impact on the U.S. economy's recent performance. Looking forward, the economic outlook will have to contend with several developing international factors. First, there is concern regarding the slowdown and/or realignments occurring in international markets due to low commodities prices and potentially changing trade agreements, affecting trading partners in the developing world. Second, unease has increased regarding the steadily slowing economic conditions in China, the world's second largest economy. Third, and in addition to the previously mentioned political uncertainty amongst various international trading partners, these conditions have created uncertainty for the short and near term future for western and less developed, commodity exporting economies.

Despite these transitory issues that are contributing to the above-referenced policy uncertainty and international market concerns, U.S. economic data still point to continued expansion. As the current U.S. economic recovery has been gradual by historical standards, the benefit of the slower than average pace is the economy has largely avoided the excesses that historically have accompanied the end of an economic expansion. The economic data demonstrate that the U.S. economy is not overspending and is not over-hiring. At this point, there also is little evidence of over-building in construction and housing markets or any of the other imbalances that historically have led to the end of U.S. business cycle expansions. The above uncertainties appear more likely to be potential economic headwinds, rather than an economic fault line. As such, the U.S. economic forecast continues to make forward progress at least through fiscal year 2019 and potentially longer.

The Vermont Situation: Turning more specifically to current economic conditions in Vermont, the payroll job labor market data indicate the State has continued to experience an "up and down" character to its payroll job data. This is in part because the Vermont economy remains very susceptible to data issues associated with "small sample size" and because of recent changes to the methodology the State is required to use for determining "statistically significant" job changes (as required by the U.S. Department of Labor). Vermont's seasonal adjustment factors are still catching up with these methodology changes, which makes the track of the seasonally-adjusted job estimates volatile month-to-month. Nevertheless, a job performance characterized by four positive and two flat month-to-month changes over the past year indicates that the State's labor market has been generally flat. In addition, right-sizing decisions at key employers in "economic driver" sectors in the State's northwest region (such as Global Foundries—which continues to "right-size" in a highly competitive global marketplace) have served to restrain forward labor market progress in that key area of the State, and have also acted to keep a lid on the upward movement of wages.

The June 2017 labor market statistics (the most recent available) show that the Vermont non-farm payroll job count added a total of 900 payroll jobs versus May—seasonally adjusted. Since November 2016, the State has added approximately 2,200 payroll jobs, including three positive, seasonally-adjusted month-to-month changes, one with no month-to-month changes, and three negative seasonally-adjusted month-to-month changes. Also according to the latest seasonally-adjusted payroll job data, it appears that the State has added a total of 3,100 new payroll jobs over the last 18 months—corresponding to the period from December 2015 through June 2017.

Over the past year, the latest State data available for June 2017 indicate that Vermont's year-over-year job change performance ranked 6th in New England and 48th among the 50 states. Vermont had a 0.6% year-over-year growth rate for June. Total Private Sector payroll jobs over the June 2016 to June 2017 period grew by 0.7%, which ranked 47th nationally and 6th in the New England region.

Using the most recent state employment statistics, on a year-over-year basis since June 2016, Vermont has had positive job addition experience over the past year in the Leisure and Hospitality sector (an increase of 3.9%, which ranks 3rd in the New England region and 14th nationally), the Professional & Business Services sector (an increase of 2.8%, which ranks 2nd in the New England region and 25th nationally) and Trade, Transportation & Utilities sector (an increase of 0.9%, which ranks 3rd in New England and 28th nationally). Across all of the nine NAICS super-sectors, the data shows that four of Vermont's nine payroll job categories have decreased in terms of the change in the number of payroll jobs over the last year. The weakest year-over-year job change was in the Manufacturing sector with a 5.0% decline from June 2016 to June 2017. This is largely the continuing result of some significant mergers and acquisitions activity in the State and a number of announced employer downsizings (see "STATE ECONOMY – Largest Private Employers" herein). In addition, Vermont's overall higher than average reliance on manufacturing activity in a time of the recent strengthening of the U.S. dollar versus the currencies of most U.S. trading partners has been, at least in the recent past, a slight drag on State job growth. At least in the near term, this headwind on manufacturing is expected to continue as the Federal Reserve System continues to normalize, or tighten, U.S. monetary policy. In addition to the Manufacturing sector, the State also experienced negative payroll job change performance year-over-year since June 2016 in the Information sector (with a 4.3% year-over-year decline) and the Financial Activities sector (with a 2.5% year-over-year decline).

Turning to the household survey of employed and unemployed Vermonters, the unemployment rate in Vermont has hovered between 3.0% and 3.3% since January 2016, the result of recent "tight" labor market conditions and only sluggish growth in the civilian labor force. Year-over-year, Vermont's unemployment rate has declined from 3.3% in June 2016 to 3.2% in June 2017. The Vermont unemployment rate in June 2017 was the tenth lowest in the nation (tied with Iowa) and second lowest in New England behind the State of New Hampshire's 2.9% rate (against the backdrop of a 4.4% U.S. "top-line" June unemployment rate). Vermont unemployment rates have been below the average for the U.S. as a whole since May 1991, as have the unemployment rates for most of the New England region—except for the States of Rhode Island and Connecticut. To a large extent, much of this standing may reflect the higher than average median age of the Vermont population, the population of the northern New England region and of The Commonwealth of Massachusetts.

The Moody's Analytics National Economic Forecast Assumptions: The economic outlook for Vermont for the calendar year 2017 through calendar year 2019 period is based on a comprehensive national economic outlook assembled by Moody's Analytics, a respected national economic forecasting firm. The statistics in the consensus economic forecast in Table 5 (below) reflect this underlying Moody's Analytics national economic forecast as adjusted during the July 2017 consensus revenue forecast process between the Administration and the JFO. Consistent with the updated U.S. macroeconomic consensus forecast, the updated consensus economic forecast for Vermont also includes a slightly slower pace of output growth and job growth over the near term. The adjusted Moody's Analytics' national forecast expects a maturing, historically modest, but still stable U.S. economic upturn despite the uncertainties relating to national economic policy. U.S. GDP is expected to expand by 2.3% for calendar 2017, followed by 2.6% for calendar year 2018. For calendar year 2019, U.S. GDP is expected to increase by 2.2%—the same rate of GDP growth that was forecasted for calendar year 2019 as part of the January consensus forecast.

The Moody's Analytics national outlook for U.S. labor markets predicts an annual average increase in payroll jobs of 1.5% in calendar year 2017, easing back to a 1.3% rate of increase for calendar year 2018 and a 1.2% rate of payroll job growth for calendar year 2019—corresponding to an average annual increase of 1.3% over the 2017 through 2019 forecast period. The U.S. unemployment rate, which is expected to average 4.4% in calendar year 2017, is expected to decline modestly to 4.1% in 2018, and by calendar year 2019, the U.S. unemployment rate is expected to fall to 3.9% on a seasonally-adjusted annual average basis.

Consumer prices, as measured by the Consumer Price Index (CPI), are expected in this forecast to increase following a prolonged period of relatively flat growth, increasing at a 2.1% rate of inflation for calendar year 2017, continuing to increase by 2.3% in calendar year 2018, and rising to 2.7% in calendar year 2019. The adjusted Moody's Analytics forecast for monetary policy over the calendar year 2017 through calendar year 2019 period expects a "gradual normalizing" of short-term interest rate policy through the rest of the consensus forecast period. Accordingly, an increase in interest rates is expected to take place in calendar years 2017 through 2019, with the Prime Rate expected to top out at 5.7% on an average annual basis in calendar year 2019. The forecast also includes some downside forecast risks, ranging from an escalation of the current economic uncertainty and volatility in global stock markets and the developing world to the on-going geopolitical instability in the Middle East, the Korean peninsula, and Eastern Europe. In each case, these downside risks are not expected to seriously threaten the current economic expansion, and the current positive trajectory for the U.S. economy, restrained as it is, is expected to continue through calendar year 2019.

The Vermont Economic Outlook: The Vermont near-term economic outlook, which is based on the Moody's Analytics' national forecast as described above (and reflected in Table 5 below), includes a Vermont economy that will, for the most part, follow a similar path to the U.S. economy throughout the calendar year 2017 through calendar year 2019 period. Looking at the State's major macro variables, the updated forecast calls for the current State economic upturn to continue for real output (as measured by Gross State Product or GSP), for inflation-adjusted or real personal income, and for most labor market indicators. It is also expected that the pace of forward progress will continue at a historically moderate pace—which, like the U.S. economy as a whole, is a reflection of an aging/maturing economic expansion.

In terms of Vermont's key economic variables, the forecast for Vermont expects an annualized 1.1% increase in inflation-adjusted output for all of calendar year 2017. Calendar year 2018's output is then expected to increase by 1.3%, before declining to a historically restrained 0.8% rate of increase for Vermont output growth in calendar year 2019. The rate of payroll job growth for the forecast period is expected to be 0.9% in calendar year 2017, followed by increases of 1.0% in calendar year 2018, and 0.8% in calendar year 2019. Nominal dollar personal income growth is likewise expected to be moderate, posting restrained growth during the annual periods of the forecast horizon. For calendar year 2017 through calendar year 2019, nominal dollar personal income is expected to increase between 2.4% per year and 2.7% per year. The Federal Housing Finance Agency (FHFA) Housing Price Index for Vermont is expected to continue increasing at moderate rates over this forecast timeline, reflecting the State's more reserved housing price correction associated with the "Great Recession" time frame. For calendar year 2017, the FHFA price index is expected to increase by 2.6%, followed by increases of 3.1% in calendar year 2018, and 3.7% in calendar year 2019. It is noteworthy that these projected continued increases in the State's Housing Price Index are on top of State housing prices that recovered all of the value lost during the Great Recession and accompanying housing crisis by the first quarter of calendar year 2017; Vermont is only the second state in the New England region to complete its full housing market recovery from the mid-2000s run up in prices.

Although the State's economic performance is expected to be moderate over the calendar year 2017 through 2019 period, the forecast for Vermont also includes the expectation that labor market conditions will remain "tight." The State's annual average unemployment rate is expected to remain low through the forecast period, from a 3.1% annual average rate in calendar year 2017 to an annual average rate of 3.0% for both calendar years 2018 and 2019. This forecast, if achieved, would result in a Vermont unemployment rate at the end of calendar year 2019 that is 1.4 percentage points below the forecasted U.S. unemployment rate for that year.

Economic Forecast – Summary Data

The following table sets forth comparative statistics and assumptions corresponding to the current short term economic outlook for the Vermont and national economies. The U.S. data correspond to the assumed macroeconomic environment for the Vermont economy as provided by Moody's Analytics for the upcoming three calendar year period as it was developed in the summer of 2017 and was subsequently adjusted as needed for the July 2017 consensus revenue forecast process. The Vermont statistics present the specific detail for the Vermont economic forecast, and incorporate the estimated impacts of the on-going moderate improvement in State labor market conditions and other macroeconomic variables. As of the date of this Official Statement, regional data is not yet available for comparison purposes.

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Table 5
Calendar Year Forecast Comparison: United States and Vermont

	Actual					Forecast[1]		
	2012	2013	2014	2015[1]	2016[1]	2017	2018	2019
Real Output (% Change)								
U.S. Gross Domestic Product	2.2	1.7	2.4	2.6	1.6	2.3	2.6	2.2
Vermont Gross State Product	(0.2)	(0.2)	0.3	0.9	0.8	1.1	1.3	0.8
Non-Farm Employment (% Change)								
U.S.	1.7	1.6	1.9	2.1	1.8	1.5	1.3	1.2
Vermont	1.2	0.7	1.0	0.8	0.3	0.9	1.0	0.8
Unemployment (%)								
U.S.	8.1	7.4	6.2	5.3	4.9	4.4	4.1	3.9
Vermont	4.9	4.4	3.9	3.6	3.3	3.1	3.0	3.0
FHFA Home Prices (% Change) (Current Dollars)								
U.S.	(0.2)	4.0	5.3	5.4	5.7	5.2	5.4	4.8
Vermont	0.3	0.1	0.3	2.0	1.4	2.4	3.1	3.7

[1] 2015 and 2016 variables are subject to further revision, and 2017 through 2019 values in this table reflect projected data as of July 2017.

Sources: Moody's Analytics (U.S.) June, 2017 Control Forecast as adjusted; June 2017 Vermont Consensus Forecast Update (as of July 21, 2017).

The data shown in Table 5 is consistent with the labor market, output growth, and housing price experience of the State during the State's recovery from the "Great Recession." The generally milder impact of the last recession on the Vermont economy overall has in part resulted in a somewhat milder pace to the State's economic recovery versus the U.S. average—at least during the initial years of the economic recovery and subsequent expansion. This is tied to the State's comparative performance during the most recent period of significant national economic recession when, despite peaking earlier in its labor markets than the U.S. economy leading into the "Great Recession," the State's non-farm payroll jobs fell at a slower pace and declined less significantly than the U.S. on average during the period from calendar year 2007 through 2009—corresponding to the most recent deep and prolonged period of economic recession. This "fall less and recover slower" performance during the most recent period of economic recession was consistent with the State's comparative performance during the recession-recovery of the early-2000s period.

For calendar year 2017, Vermont is forecasted to see inflation-adjusted output continue to rebound at a level somewhat below the U.S. average. This is expected to be followed by a period for calendar year 2018 and calendar year 2019 when the comparative performance of the State's output growth is expected to be lower. The relative performance by non-farm payroll job growth is expected to reflect the same slower-than-the-U.S. average, although the State's unemployment rate is expected to continue to track at a level significantly below the U.S. average. Vermont's comparative housing price performance is expected to continue to track below U.S. levels, largely due to the fact that the State's housing price decline during the "Great Recession" time period was not as pronounced as the U.S. average nor near the level of price declines experienced by most U.S. states during the housing market crash during this period.

Regional Comparison

Data presented in Tables 6 through 8 include comparative labor market information for the State relative to the other New England states and the major metropolitan areas in the New England region. Table 6 shows the most current monthly unemployment rate data for Vermont, the seven northeastern states, and the U.S. as a whole. Tables 7 and 8 set forth the latest annual unemployment and payroll job change data available for the various New England metro areas.

These data show that during the current and previous economic cycles the Burlington metropolitan area continues to be a strong performing metropolitan area in the New England region in comparison to the other 20 New England metropolitan areas. The tables show that the State and its major metropolitan area have among the lowest unemployment rates, and among the best relative job change performances, in the region during the most recent complete business cycle (November 2001 through December 2007), the period corresponding to the latest recession (January 2008 to June 2009) and the subsequent recovery. This previous cycle includes the year with the labor market peak and trough surrounding the early-2000s national economic recession and subsequent expansion up-cycle in the New England region and the United States as a whole that ended in December 2007. Data for calendar years 2010 through 2016 where relevant and available, are also included to present data related to the most recent period of economic recovery.

Table 6
Total Unemployment Rate Comparison of Vermont,
Seven Northeastern States and the U.S.

	June 2017	May 2017	June 2016	Change From Last Year
Vermont	3.2%	3.2%	3.3%	(0.1)
Connecticut	5.0	4.9	5.2	(0.2)
Maine	3.5	3.2	3.9	(0.4)
Massachusetts	4.3	4.2	3.7	0.6
New Hampshire	2.9	2.9	2.9	0.0
New Jersey	4.1	4.1	5.1	(1.0)
New York	4.5	4.4	4.9	(0.4)
Rhode Island	4.2	4.1	5.4	(1.2)
United States	4.4	4.3	4.9	(0.5)

Notes: Data are seasonally adjusted and exclude the Armed Forces.

Source: U.S. Department of Labor, Bureau of Labor Statistics

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Table 7
Comparison of Unemployment Rates in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Annual Average % 2010	Annual Average % 2011	Annual Average % 2012	Annual Average % 2013	Annual Average % 2014	Annual Average % 2015	Annual Average % 2016
Connecticut							
Bridgeport, Stamford, Norwalk	8.7	8.5	8.0	7.5	6.4	5.6	5.0
Danbury	7.6	7.1	6.8	6.2	5.3	4.6	4.2
Hartford-W. Hartford-E. Hartford	9.2	8.8	8.4	7.8	6.6	5.7	5.1
New Haven	9.3	9.1	8.6	7.9	6.7	5.8	5.1
Norwich-New London	9.2	9.2	9.0	8.4	7.1	6.1	5.2
Waterbury	11.4	10.8	10.1	9.4	8.2	7.2	6.2
Maine							
Bangor	7.8	7.4	7.0	6.2	5.3	4.1	3.8
Lewiston-Auburn	8.6	8.2	7.8	6.6	5.4	4.1	3.6
Portland, So. Portland, Biddeford	6.7	6.4	6.1	5.5	4.5	3.5	3.0
Massachusetts							
Barnstable Town	9.6	8.6	7.8	7.7	6.7	5.8	4.4
Boston, Cambridge, Newton	7.6	6.6	6.1	6.1	5.2	4.4	3.4
Leominster, Fitchburg, Gardner	10.2	9.2	8.4	8.3	7.0	5.8	4.4
New Bedford	11.6	10.5	9.9	10.3	8.6	7.2	5.5
Pittsfield	8.9	8.0	7.5	7.6	6.7	5.5	4.4
Springfield	9.2	8.4	7.8	8.0	6.9	5.8	4.6
Worcester	8.9	7.8	7.3	7.3	6.2	5.2	4.0
New Hampshire							
Dover-Durham	6.1	5.6	5.6	5.0	4.0	3.1	2.6
Manchester	6.1	5.4	5.6	5.1	4.2	3.3	2.7
Portsmouth	5.6	5.2	5.2	4.8	3.9	3.0	2.5
Rhode Island							
Providence, Fall River, Warwick	11.1	10.7	10.0	9.0	7.5	5.9	5.1
Vermont							
Burlington-South Burlington	5.0	4.3	3.8	3.5	3.2	2.8	2.6

Note: Data for Labor Market Areas are subject to sporadic revisions, depending on the state.
Furthermore, these areas are also subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 8
Comparison of Non-farm Payroll Job Growth in New England's Largest Metropolitan Areas
Not Seasonally Adjusted

City	Number of Non-farm Jobs Calendar Year 2001 Annual Average (000s)	Number of Non-farm Jobs Calendar Year 2016 Annual Average (000s)	Change in Number of Non-farm Jobs Calendar Years 2001–2016 (000s)	Percent Change in Non-farm Jobs Calendar Years 2001–2016
Connecticut				
Bridgeport, Stamford, Norwalk	422.2	410.2	(12.0)	(2.8)%
Danbury	69.2	78.8	9.6	13.9
Hartford-W. Hartford-E. Hartford	553.8	569.8	16.0	2.9
New Haven	273.5	281.8	8.3	3.0
Norwich-New London	130.8	128.8	(2.0)	(1.5)
Waterbury	69.7	67.2	(2.5)	(3.6)
Maine				
Bangor	63.2	66.3	3.1	4.9
Lewiston-Auburn	47.5	50.8	3.3	6.9
Portland, So. Portland, Biddeford	185.8	201.5	15.7	8.4
Massachusetts				
Barnstable Town	96.8	105.7	8.9	9.2
Boston, Cambridge, Quincy	2,535.9	2,702.7	166.8	6.6
Leominster-Fitchburg-Gardner	53.4	51.5	(1.9)	(3.6)
New Bedford	66.8	67.6	0.8	1.2
Pittsfield	36.6	41.8	5.2	14.2
Springfield	300.4	332.8	32.4	10.8
Worcester	245.9	282.9	37.0	15.0
New Hampshire				
Dover-Durham	51.6	53.5	1.9	3.7
Manchester	96.4	110.5	14.1	14.6
Portsmouth	51.5	91.0	39.5	76.7
Rhode Island				
Providence, Fall River, Warwick	573.3	583.5	10.2	1.8
Vermont				
Burlington-South Burlington	113.6	124.9	11.3	9.9

Note: Labor Market Areas are subject to sporadic revisions depending on the state and also are subject to infrequent geographic redefinition.
Data are not seasonally adjusted.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

Composition of the Vermont Economy

Tables 9 and 10 include data that profile the earnings and employment levels by major industry for the State of Vermont under NAICS. The earnings data reflected in Table 9 cover the calendar year 2014 to 2016 period (calendar year 2016 being the latest year for which complete annual average data are available). Employment data by industry reflected in Table 10 are provided for the 2013-2015 calendar year period for Vermont and 2015 for the U.S. (the most current data available as of the date of this Official Statement).

The full-time and part-time jobs data through calendar year 2015 show that Manufacturing remains one of the State's most important sectors, representing an estimated 8.1% of total all non-farm employment in 2015 versus 6.9% of employment for the U.S. in 2015. Other important parts of Vermont's economic base include: Health Care and Social Assistance at 13.3% of 2015 total employment; Retail Trade at 10.7% of 2015 total employment; Construction at 6.7% of 2015 total employment versus the U.S. average of 5.2% in 2015; Private Education Services at 4.3% of total employment versus the U.S. average of 2.5% in 2015; and Accommodations and Food Services at 8.1% of total employment versus 7.4% of employment for the U.S. as a whole in 2015.

Earnings data over the calendar year 2014 to 2016 period show little relative change. The share of Manufacturing earnings fell by 0.3 percentage points to 12.3% of total earnings in 2015 compared to 12.6% in 2014. (11.7% of total earnings in 2016, again a slight decrease from the previous year). The share of Construction earnings remained unchanged at 5.0% of total earnings in 2015 (5.1% in 2016). Of the other important parts of Vermont's economic base, the share of Health Care and Social Assistance earnings increased slightly from 14.9% of total earnings in 2014 to 15.2% of total earnings in 2015 (15.5% in 2016); the share of Retail Trade earnings decreased slightly to 7.6% of total earnings in 2015 (7.5% in 2016); the share of Private Education Services earnings remained unchanged at 3.5% of total earnings in 2015 (up to 3.8% in 2016); and the share of earnings for the Accommodations and Food Services sector increased slightly to 5.1% of total earnings in 2015 from 4.9% in 2014 (5.1% in 2016).

Relative to the U.S. economy, Vermont's economy relies somewhat more heavily on Construction, Forestry and Fishing, Manufacturing, Private Education Services, Health Care and Social Assistance, Retail Trade, Accommodations and Food Services, Arts, Entertainment, and Recreation and the Farm sector. The State's relatively high reliance on Retail Trade and Accommodations and Food Services reflects the importance of travel and tourism to the State's economy. At the same time, the State has a slightly lower reliance on sectors such as Professional and Technical Services, Information, Financial Activities, Transportation, Warehousing and Utilities, Management of Companies and Enterprises, Real Estate and Rental and Leasing, Mining, Administrative and Waste Services, and the Wholesale Trade sector for its employment and earnings.

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Table 9
Total Earnings by Industry
2014-2016
($Thousands)

	2014		2015		2016	
	Total Earnings	Percent of Total	Total Earnings	Percent of Total	Total Earnings	Percent of Total
Farm:	$100,451	0.6%	$92,403	0.5%	$94,467	0.5%
Non-Farm Industry:						
Construction	858,547	5.0	890,265	5.0	944,133	5.1
Forestry, Fishing and Other Related Activities	37,259	0.2	38,483	0.2	38,293	0.2
Mining	41,643	0.2	46,836	0.3	48,358	0.3
Utilities	238,706	1.4	248,191	1.4	210,959	1.1
Manufacturing	2,160,305	12.6	2,183,323	12.3	2,161,426	11.7
Wholesale Trade	624,091	3.6	659,284	3.7	707,867	3.8
Retail Trade	1,313,260	7.7	1,354,117	7.6	1,383,331	7.5
Information	324,966	1.9	330,757	1.9	337,825	1.8
Financial Activities	768,181	4.5	806,795	4.5	822,668	4.4
Real Estate and Rental and Leasing	144,844	0.8	145,581	0.8	151,968	0.8
Transportation and Warehousing	348,443	2.0	348,491	2.0	356,438	1.9
Management of Companies and Enterprises	216,335	1.3	229,253	1.3	245,608	1.3
Professional, Scientific and Technical Services	1,151,085	6.7	1,231,728	6.9	1,303,541	7.0
Private Education Services	606,750	3.5	624,810	3.5	703,376	3.8
Health Care and Social Assistance	2,557,193	14.9	2,697,409	15.2	2,864,955	15.5
Arts, Entertainment, and Recreation	134,793	0.8	128,813	0.7	138,131	0.7
Accommodations and Food Services	853,099	4.9	906,717	5.1	935,261	5.1
Administrative and Waste Services	470,230	2.7	479,137	2.7	524,564	2.8
Other Private Services-Providing	464,379	2.7	491,658	2.8	511,262	2.8
Total Private Non-Farm Industries	$13,396,560	78.2%	$13,841,648	77.9%	$14,389,964	77.8%
Government and Government Enterprises	$3,738,826	21.8%	$3,836,984	21.6%	$4,015,432	21.7%
Total Farm and Non-Farm Earnings	$16,758,785	100.0%	$17,771,035	100.0%	$18,499,863	100.0%

Notes: Total may not add due to rounding. Total Earnings is comprised of wages and salaries, other labor income and proprietor's income.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 10
Vermont Jobs by Industry
2013-2015

	2013		2014		2015		U.S. 2015	
	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total	Jobs	Percent of Total
Farm	9,801	2.3%	9,891	2.3%	9,875	2.3%	2,642,000	1.4%
Non-Farm Industry:								
Construction	28,067	6.6	28,622	6.7	29,218	6.7	9,948,900	5.2
Forestry, Fishing, and Other Related Activities	3,740	0.9	3,766	0.9	3,842	0.9	962,000	0.5
Mining	1,311	0.3	1,215	0.3	1,263	0.3	1,504,600	0.8
Manufacturing	35,813	8.4	35,071	8.2	34,998	8.1	13,091,200	6.9
Wholesale Trade	10,496	2.5	10,921	2.5	11,321	2.6	6,785,600	3.6
Retail Trade	46,064	10.8	46,446	10.8	46,691	10.7	19,149,000	10.1
Information	5,996	1.4	6,146	1.4	6,086	1.4	3,376,600	1.8
Financial Activities	14,213	3.3	13,799	3.2	13,686	3.1	9,645,700	5.1
Transportation, Warehousing & Utilities	10,899	2.6	10,702	2.5	10,476	2.4	7,193,800	3.8
Management of Companies and Enterprises	2,182	0.5	2,343	0.5	2,508	0.6	2,431,800	1.3
Real Estate and Rental and Leasing	14,787	3.5	14,980	3.5	15,322	3.5	8,727,200	4.6
Professional and Technical Services	26,375	6.2	26,337	6.1	26,998	6.2	13,242,900	7.0
Private Education Services	17,395	4.1	18,000	4.2	18,625	4.3	4,662,000	2.5
Health Care and Social Assistance	56,751	13.3	57,025	13.3	57,793	13.3	21,309,800	11.2
Arts, Entertainment, and Recreation	11,249	2.6	11,603	2.7	11,679	2.7	4,289,000	2.3
Accommodations and Food Services	33,274	7.8	34,210	8.0	35,417	8.1	14,032,200	7.4
Administrative and Waste Services	17,455	4.1	17,780	4.1	18,259	4.2	12,022,900	6.3
Other Services, except public administration	21,563	5.1	22,033	5.1	22,284	5.1	11,036,200	5.8
Total Private Sector Non-Farm	367,431	86.4%	370,890	86.4%	376,341	86.6%	166,053,400	87.3%
Government	57,809	13.6%	58,407	13.6%	58,278	13.4%	24,142,000	12.7%
Total Jobs	415,439	100.0%	429,297	100.0%	434,619	100.0%	190,195,400	100.0%

Notes: Includes total jobs and proprietors. Totals may not add due to rounding.
SOURCE: U.S. Bureau of Economic Analysis, U.S. Department of Commerce.

Largest Private Employers

The Vermont economy reflects a diverse mix of manufacturing, tourist-based, education/higher education, professional services (including health care, business, and private sector higher education services), trade and other employers. According to the Vermont Business Directory 2016/17 published by Vermont Business Magazine, in calendar year 2016, the State's three largest private sector employers were: (i) The University of Vermont Medical Center (formerly known as Fletcher Allen Health Care) ("UVMC"), with approximately 7,574 employees, (ii) Global Foundries, Inc. ("Global Foundries"), with approximately 2,600 employees, and (iii) Keurig Green Mountain (formerly Green Mountain Coffee Roasters, Inc.) ("Keurig"), with approximately 2,000 employees.

UVMC, the State's largest private employer, is part of a network of five partner hospitals (which also includes Central Vermont Medical Center, Champlain Valley Physicians Hospital, Elizabethtown Community Hospital, and the Porter Medical Center) that serve the residents of Vermont and northern New York. UVMC has a longstanding strategic alliance with the University of Vermont's College of Medicine and the College of Nursing and Health Sciences, bringing world-class research, education and care to the region. In July 2015, the Green Mountain Care Board[1] approved a new 180,000 square foot, 128-room inpatient facility designed to improve quality of care and to meet the medical center's long-term bed needs. The $187 million facility will replace out-of-date double occupancy inpatient rooms, which will help prevent the spread of infections, offer patients privacy, afford space to accommodate diagnostic equipment, and accommodate patients' families and visitors. Construction of the project is underway, and the medical center anticipates that the new inpatient facility will be open by the end of calendar year 2018.

Global Foundries, another key Vermont employer, acquired IBM's Microelectronics Division in July 2015, which acquisition included IBM's semiconductor fabrication facilities in East Fishkill, New York and Essex Junction, Vermont. The acquisition also included IBM's technologists, intellectual property and technologies related to the IBM Microelectronics Division. As part of the acquisition agreement, Global Foundries is now IBM's exclusive server processor semiconductor technology provider for 22 nanometer (nm), 14 nm and 10 nm semiconductors for a 10-year period. In anticipation of further collaboration following the acquisition, IBM continues to maintain a significant presence at the technology campus in Essex Junction, with a reported 200 employees being based at that location.

Global Foundries has set up an independent subsidiary (Global Foundries US2) to operate the East Fishkill and Essex Junction, Vermont fabrication facilities, which subsidiary participates in the U.S. Government's "Trusted Foundry" program, which allows it to compete with other "Trusted Foundry" providers for contracts from the U.S. Department of Defense ("DoD"). Subsequently, in June 2016, it was announced that Global Foundries won a chip fabrication contract with the DoD to be the sole supplier of high-end chips to be used in U.S. fighter planes, weapons systems, and satellites used by the U.S. military. Although details of the DoD contract were not made public, it was reported to be a multi-year contract, valued at approximately $60 million per year.

Keurig, currently the State's third largest private employer, was acquired by an investor group led by the European investment firm JAB Holding Company in March 2016. Accordingly, the company is now privately held, and according to news releases it will operate as an independent entity from JAB Holding Company with the pre-acquisition Keurig management team continuing to run the company. In June 2016, Keurig announced it would discontinue the new Keurig Cold™ at-home beverage system, and subsequently the company laid off all 108 Vermont workers who worked at the production facility in Williston, Vermont where the product was manufactured. In the announcement, the company encouraged all laid off Vermont employees to apply for the more than 200 open positions at the company available throughout the country. It is not known how many of those Keurig Cold™ workers were retained.

Other major private sector employers in the State include a mix of retail companies (Shaw's Super Markets, Martin's Food Stores d.b.a. Hannaford's, Price Chopper Stores), financial institutions (People's United Bank and Peoples United Trust Company), manufacturers (GE Aircraft Engines—Rutland Operation and Revision Military Technologies with its corporate headquarters in Essex Junction and a production facility in Newport), health care services providers (Rutland Regional Medical Center and Central Vermont Medical Center, Inc.), medical software providers (GE Health Care), technology firms (Dealer.com), higher education (Middlebury College and the Vermont State College system), and the travel-tourism industry (Jay Peak, Mt. Mansfield Company Inc., Killington LTD, and

[1] The Green Mountain Care Board was created by the Vermont Legislature in 2011 and is an independent group of five Vermonters who are charged with ensuring that changes in the health system improve quality while stabilizing costs. See "MAJOR GOVERNMENTAL PROGRAMS AND SERVICES – State Health Care Reform – *Green Mountain Care Board*" herein.

the Stratton Corporation). In August 2017, the parent company of Dealer.com, Cox Automotive Inc., announced that it intends to implement a round of layoffs totaling approximately 3% of its workforce, or 950 total employees, across all of its various subsidiaries, which include Dealer.com located in Burlington, Vermont. To date, 45 employees at the Burlington, Vermont facility (or 4% of the total employees at the Burlington facility) have been laid off.

Other notable private sector employers in the State include Green Mountain Power Corporation (the State's largest investor-owned utility), FairPoint Communications, Inc., TD Banknorth NA, UTC located in Vergennes, and several of the State's major resorts (Smugglers Notch Management Company, LTD in Jeffersonville, and Mount Snow, LTD in West Dover). Each of these employers have at least 250 reported employees. The University of Vermont and State Agricultural College also is a major employer in the State with approximately 3,700 employees according to the Vermont Business Directory 2016/17. However, the University of Vermont is classified as a public sector employer and is not considered to be a part of the private sector employment mix of the State economy for any of the major employment job count surveys conducted by the Vermont Department of Labor.

Income Levels and Income Growth Performance

The following two tables include data relating to the trends in the rate of total personal income growth for Vermont, New England and the nation as a whole over the calendar year 1991 to 2016 period. On an average annual basis, total personal income in Vermont has increased by 4.5% per year from 1991 to 2016, compared to a 4.5% per year average rate of growth for the New England region and a 4.7% per year average rate of growth in the U.S. for the same period. According to the U.S. Department of Commerce data presented in Table 12, Vermont's per capita personal income in calendar 1991 was $18,266 or 91.4% of the U.S. average of $19,985. By calendar 2016, Vermont's per capita personal income had risen to $50,321 or 101.5% of the U.S. average of $49,571. Vermont's per capita personal income increased by 3.6% in calendar year 2016, matching the New England regional average increase of 3.6% and exceeding the national average improvement of 2.9% in calendar year 2016. These same data show that Vermont's change in per capita personal income for calendar year 2016 ranked 3rd among the six New England states for that same period behind New Hampshire and Massachusetts, which experienced a 4.3% increase and 3.9% increase respectively.

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Table 11
Growth in Nominal Dollar Total Personal Income for
Vermont, New England and United States
Calendar Years 1991–2016
($ in millions)

	State of Vermont		New England		United States	
Calendar Year	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth	Total Personal Income	Percent Growth
2016	$31,430	3.3%	$920,518	3.8%	$16,017,781	3.6%
2015	30,418	2.9	886,595	4.5	15,463,981	4.5
2014	29,549	3.3	848,746	4.5	14,801,624	5.2
2013	28,593	1.7	812,475	0.0	14,068,960	1.2
2012	28,120	3.3	812,577	3.5	13,904,845	5.1
2011	27,220	6.3	785,316	4.3	13,233,436	6.2
2010	25,612	1.9	753,281	3.5	12,459,613	3.1
2009	25,131	(1.4)	727,916	(1.0)	12,079,444	(3.3)
2008	25,494	5.2	735,338	4.7	12,492,705	4.1
2007	24,232	5.3	702,558	5.2	11,995,419	5.4
2006	23,012	6.9	667,514	7.6	11,381,350	7.3
2005	21,536	2.0	620,465	4.4	10,610,320	5.6
2004	21,105	6.1	594,374	5.1	10,047,876	5.9
2003	19,895	4.0	565,305	2.6	9,484,225	3.6
2002	19,134	2.5	550,769	0.8	9,150,761	1.8
2001	18,676	6.0	546,200	4.8	8,987,890	4.1
2000	17,620	8.1	521,202	10.3	8,634,847	8.1
1999	16,297	6.5	472,326	6.2	7,988,183	5.3
1998	15,298	7.8	444,886	7.3	7,588,703	7.3
1997	14,192	5.4	414,735	6.4	7,075,132	6.2
1996	13,467	5.4	389,875	5.6	6,661,697	6.1
1995	12,782	5.4	369,066	5.6	6,275,761	5.8
1994	12,123	5.1	349,543	4.2	5,930,316	5.2
1993	11,538	3.8	335,382	3.7	5,639,780	4.4
1992	11,118	7.0	323,283	5.8	5,402,109	6.9
1991	10,386	--	305,443	--	5,055,766	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Table 12
Growth in Nominal Dollar Per Capita Personal Income for
Vermont, New England and the United States
Calendar Years 1991–2016

Calendar Year	State of Vermont Per Capita Income	State of Vermont Percent Growth	New England Per Capita Income	New England Percent Growth	United States Per Capita Income	United States Percent Growth
2016	$50,321	3.6%	$62,469	3.6%	$49,571	2.9%
2015	48,584	3.1	60,271	4.3	48,190	3.7
2014	47,128	3.4	57,806	4.1	46,464	4.4
2013	45,592	1.6	55,517	(0.4)	44,493	0.5
2012	44,889	3.4	55,728	3.1	44,282	4.3
2011	43,432	6.1	54,056	3.8	42,461	5.4
2010	40,916	1.7	52,060	3.0	40,277	2.3
2009	40,221	(1.5)	50,537	(1.4)	39,376	(4.2)
2008	40,847	5.1	51,278	4.2	41,082	3.2
2007	38,866	5.2	49,201	5.0	39,821	4.4
2006	36,944	6.6	46,858	7.4	38,144	6.2
2005	34,668	1.8	43,644	4.3	35,904	4.6
2004	34,045	5.7	41,838	5.0	34,316	5.0
2003	32,200	3.6	39,859	2.2	32,692	2.8
2002	31,089	1.9	39,000	0.3	31,815	0.9
2001	30,505	5.5	38,900	4.1	31,540	3.1
2000	28,904	7.2	37,363	9.5	30,602	6.9
1999	26,952	5.8	34,133	5.4	28,627	4.1
1998	25,480	7.2	32,393	6.6	27,510	6.0
1997	23,763	4.8	30,401	5.7	25,950	4.9
1996	22,684	4.5	28,763	5.0	24,728	4.9
1995	21,702	4.5	27,394	5.0	23,568	4.6
1994	20,764	4.0	26,092	3.7	22,538	3.9
1993	19,971	2.9	25,152	3.3	21,698	3.0
1992	19,411	6.3	24,360	5.7	21,060	5.4
1991	18,266	--	23,056	--	19,985	--

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment Statistics

Vermont had an average labor force of 346,000 (rounded) over the first six months of calendar year 2017, with approximately 336,000 (rounded) estimated as being employed and approximately 10,600 (rounded) estimated as being unemployed during that period. Vermont's 3.1% average unemployment rate over the first six months of calendar year 2017 remains significantly below both the six-month average unemployment rate for the New England region (3.9%) and for the nation overall (4.5%) over the same period. The following table sets forth data showing trends in labor force, employment and unemployment rates for Vermont, the New England region, and the U.S. economy as a whole from calendar year 1990 through June of calendar year 2017.

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Table 13
Average Annual Employment and Unemployment Rate

	State of Vermont			New England	United States
Year	Labor Force (in thousands)	Employment (in thousands)	Unemployment Rate (%)	Unemployment Rate (%)	Unemployment Rate (%)
2017*	346	336	3.1%	3.9%	4.5%
2016	345	334	3.3	4.1	4.9
2015	346	333	3.6	4.9	5.3
2014	348	334	3.9	5.9	6.2
2013	351	336	4.4	6.9	7.4
2012	355	337	4.9	7.2	8.1
2011	358	338	5.5	7.7	8.9
2010	359	337	6.1	8.3	9.6
2009	360	336	6.6	8.0	9.3
2008	355	338	4.7	5.6	5.8
2007	354	340	4.0	4.5	4.6
2006	357	344	3.7	4.5	4.6
2005	351	339	3.5	4.7	5.1
2004	348	335	3.6	4.9	5.5
2003	346	331	4.3	5.3	6.0
2002	343	329	4.0	4.8	5.8
2001	337	326	3.3	3.6	4.7
2000	331	322	2.8	2.8	4.0
1999	337	327	2.9	3.2	4.2
1998	334	322	3.4	3.5	4.5
1997	328	315	3.9	4.3	4.9
1996	324	310	4.3	4.8	5.4
1995	320	306	4.3	5.3	5.6
1994	316	301	4.6	5.9	6.1
1993	313	296	5.1	6.8	6.9
1992	307	289	6.1	7.9	7.5
1991	304	284	6.6	7.8	6.9
1990	305	290	5.0	5.8	5.6

* Average through June 2017.
Sources: Vermont Department of Labor (Vermont); U.S. Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Boston (New England and the United States).

Transportation

Highway System. The VTrans 2017 Fact Book published by the Vermont Agency of Transportation describes the Vermont's roadway infrastructure system as a total of 14,171 total miles of local and state roadway, 772 miles of roadway within the National Highway System (NHS), 2,331 miles of roads listed in the State Highway System (SHS), and 139 miles of Class I Town Highways. There are a number of road construction projects in progress, which range in purpose from system preservation, safety, bridge maintenance, and enhancement to various replacement projects designed to expand the State's roadway infrastructure system capacity.

More specifically, calendar year 2017 marks the beginning of a number of major, infrastructure improvement projects. These include bridge replacements on Interstate-91, the completion of two major bridge projects in central Vermont involving Interstate-89, and a number of significant re-paving projects. For those involving Interstate-91, the replacement of the northbound and southbound bridges over the Williams River in Rockingham started this year and is expected to conclude in 2020. This important project follows the recent completion of a multi-year, $44 million bridge replacement project over the West River in Brattleboro. Regarding Interstate-89, the State has begun work in Waterbury on the replacement of the Route 2 Bridge over Interstate-89 and the New England Railroad track. This multi-year project involves the replacement of the bridge in its entirety and is expected to be completed by the end of the construction season in calendar year 2018. Other examples of key projects in the State this calendar year include the following: (1) re-paving 9.7 miles of Route 100 from the Interstate-89 interchange in Waterbury to Stowe village, (2) upgrading and re-building Route 7 around Brandon, (3) re-paving 26.1 miles (including both north-bound and south-bound lanes) of Interstate-89 between Colchester and Swanton, (4) re-surfacing 12.5 miles of Route 15 between Danville and Hardwick, (5) re-surfacing 7.6 miles of roadway on Route 12 in Hartland, (7) repairing 17 miles of roadway on Route 73 in Brandon to repair damage caused by Tropical Storm Irene, and (8) repairing Route 12A in Roxbury and Northfield to repair damage caused by Tropical Storm Irene. After completion of the two above-referenced projects related to Tropical Storm Irene, the State will have four Tropical Storm Irene-related projects left to complete, and it is expected that those projects will be finished by the end of the 2019 construction season.

Vermont's highway system also includes 2,723 long structure bridges—which are defined as bridges spanning more than 20 feet in length and located on public roads. Since 2006, the State has made significant progress in improving its long-structure bridges system performance, including significant reductions in the number of structurally deficient bridges. In 2016, of the 1,089 State Owned and Maintained Long-Bridges in its inventory, only 44 bridges were listed as being "structurally deficient," which amounts to just over 5.5% of the total number of bridges in the State's system. For bridges in the Town Highway system, the percentage of structurally deficient bridges was 16.3% in 2006. By 2016, the percentage of structurally-deficient bridges in the State's Town Highway system was 5.9%. Both percentages were well below the VTrans System Goal of 10.0% for State Highway System and 12.0% Town Highway system. For the so-called "State Shorts" bridge category, the percentage of structurally deficient bridges has declined from 17.6% of the total in 2006 to 6.2% in 2016. That compares favorably to a 10.0% structural deficiency system goal for the "State Shorts" category as set forth by the Agency of Transportation in its long-range plans.

The State has also made significant improvements in other areas of its transportation infrastructure. In 2009, more than 34% of the State's roads were classified as being in "very poor condition." By 2016, that percentage had declined to 14% and has stayed between 13% to 15% of the total over the last three years. In addition, the State paved a total of 290 two-lane miles of roadway in 2014 with the assistance of significant increases in federal transportation funds for such purposes. That 2014 paving activity represented nearly 90 miles more than the 201 two-lane miles paved in 2013 and the 205 two-lane miles total paved in 2012. In 2016, the State paved a total of 161 two-lane miles—a total equal to the number of two-lane miles paved in 2011—which was prior to the spike in paving activity in the State experienced during the calendar year 2012 to 2014 time frame.

Since 2012, the State has successfully used procedures and practices under the so-called Accelerated Bridge Program ("ABP") for all bridge replacement projects. According to the Agency of Transportation, this approach has for the most part become standard practice throughout the State. The primary goal of the ABP is to improve the condition of Vermont's bridges while reducing project costs through expedited project development, delivery and construction. A total of seven ABP projects advertised in 2015 were successfully constructed during the 2016 construction season using accelerated bridge construction methods. The effective use of ABP practices typically results in only short-term road closures for impacted roadways.

Rail. Vermont's rail network encompasses approximately 578 miles of active rail lines. All of these lines are used for freight service with two routes also being used for intercity passenger service. The State owns 305 miles of the active rail network, and the State acquired these lines when their former owners either filed for bankruptcy or announced that they would no longer provide service on these lines, or both. The first rail lines the State purchased were those of the Rutland Railroad after the company filed for bankruptcy and abandonment in 1962. The most recent was the acquisition of trackage now operated by the Washington County Railroad Connecticut River Line in 2003.

Freight rail service in Vermont is provided by short line and regional railroads. In other parts of the nation, Class I railroads (carriers with revenues in excess of $467 million) serve as the railroad equivalent of the Interstate highway network, carrying freight between regional markets. By contrast, short line and regional railroads serve a gathering role, providing a "last mile" connection to shippers on relatively light density rail lines. In Vermont, and similar to most other New England states, short line and regional railroads comprise its rail network. As such, most freight is handled by multiple railroads between origin and destination. On approximately 94 percent of the Vermont rail network, freight service is provided by one of two companies—Genesee & Wyoming, Inc. or the Vermont Rail System. Genesee & Wyoming is the nation's largest short line holding company with over 120 subsidiary railroads (including 105 in North America), operating over 13,000 miles of track in North America. The company owns two railroads that pass through Vermont: (1) the New England Central Railroad; and (2) the St. Lawrence & Atlantic Railroad. The Vermont Rail System provides freight service on each of the State-owned rail lines under the following three subsidiary railroads: (1) the Vermont Railway; (2) the Green Mountain Railroad; and (3) the Washington County Railroad. These rail lines are leased to the Vermont Rail System, such that the State is responsible for capital improvements on the lines, as well as maintaining some of the rail bridges, while the operator is responsible for ongoing maintenance and freight operations. In addition to operating state-owned lines, the

Vermont Rail System also owns and operates the Clarendon & Pittsford Railroad. The Central Maine & Quebec Railway also provides service into northern Vermont, and the Pan Am Railway passes through the southwestern corner of the State. The Central Maine & Quebec Railway was created in 2014 from rail lines formerly owned by the Montreal, Maine & Atlantic Railway, which declared bankruptcy following the Lac Megantic rail accident in Quebec in July 2013.

The Vermont freight network carries a variety of commodities, with pulp, paper, and allied products; clay, concrete, glass or stone; lumber or wood products; and chemicals and allied products accounting for more than half of the commodities carried in recent years. Historically, Vermont's largest trading partners, as measured by tonnage of rail freight, have been New York, Maine, states in the Southeast and Canada.

Passenger rail service in Vermont is provided by the National Passenger Railroad Corporation (Amtrak). State-supported Amtrak service includes two passenger trains: (1) the "Vermonter," with service from Washington, D.C. through New York City, New Haven, Connecticut and Springfield, Massachusetts to St. Albans, Vermont (covering 467 miles), and (2) the "Ethan Allen Express," with service from New York City through Albany, Schenectady and Saratoga Springs, New York to Rutland, Vermont (covering 241 miles).

Both the Vermonter and Ethan Allen Express services are subsidized through cooperative agreements between Vermont and other states. The Vermonter is supported by Vermont, Massachusetts and Connecticut; the Ethan Allen Express is supported by Vermont and New York. The Vermont portion of the subsidies for the two passenger services is approximately $8.1 million per year, which Vermont pays to Amtrak for providing the services. In federal fiscal year 2016, 140,035 passengers got onto or off of trains at stations in the State (Vermonter passengers accounted for 89,318, and Ethan Allen Express passengers accounted for 50,717). Overall, rail ridership has increased in recent years.

Recent improvements to the State's rail system include substantial improvements to the Vermonter rail lines in Vermont and New Hampshire. Between 2010 and 2012, $70 million in public and private sector funds—including $50 million in High Speed Intercity Passenger Rail (HSIPR) funds and $20 million from New England Central Railroad—were invested to replace most of the rail and to complete upgrades that restored speeds of up to 59 mph between St. Albans and White River Junction, and 79 mph between White River Junction and Vernon. In 2014, the State began work on upgrading the rails between Rutland and Burlington along the Western Corridor to a higher grade, heavier weight rail that is continuously welded to remove all joints. This continuous welded track will allow higher train speeds and a more comfortable, quieter ride. The project was funded with $10 million in federal funds, $9 million from a grant received under the Transportation Investment Generating Economic Recovery (TIGER) IV program, and matching State funds. The project was recently completed and resulted in the upgrade of approximately 19 miles of track in this important rail corridor.

In October 2015, the State released a final version of the updated State Rail Plan (the "USRP"), which articulates the State's vision for increasing passenger and freight service in the State by: (1) extending service by the Vermonter to Montreal, and extending the Ethan Allen Express from Burlington to Essex Junction, (2) upgrading the State's track system to more consistently accommodate heavier loads to the 286,000 pound carload industry standard, and (3) upgrading the State's rail bridges to the same 286,000 pound carload standard. The USRP covers the State's capital needs for rail over the 20 year period from the plan's publication date, and includes a projected total of $685.6 million in identified needs that would be required to maintain and enhance the State's rail system. A total of $255.9 million (or 37%) of that total reflects resources that would be required to upgrade all of Vermont's passenger rail routes to the Federal Rail Administration's Track Class 4 (or 79 MPH) standard. According to the USRP, approximately $203.7 million is required to upgrade and maintain all State-owned bridges to the 286,000 pounds standard. The USRP also lays out funding requirements for new passenger service between Albany, New York and Burlington, and the funding that is needed to address issues such as vertical clearance (for double stacking) and a series of measures needed to address yard, interchange, and industrial access points for the State's rail system.

Expected funding at current levels in the USRP totals roughly $380 million (80% federal funding at $15 million per year for 20 years with a 20% State match at $4 million per year for 20 years[2]). This results in an estimated funding gap of $305.6 million, which would need to be filled by alternative sources of financing. Over

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[2] This is based on an average of just over $15.0 million in federal funding for rail capital projects per year since 2002. Although most State funding for rail is dedicated for operating expenses, the State's USRP indicates that approximately $4.0 million per year will be allocated over the next 20 years for matching funds to complete rail capital projects in the State.

time, the State has been successful in securing funding from the private sector and from federal sources such as the TIGER grant program and through the federal earmark process (which the U.S. Congress recently ended), from the Federal Emergency Management Administration (FEMA) in the aftermath of the destruction caused by Tropical Storm Irene, and through the American Recovery and Reinvestment Act (ARRA) in the aftermath of the "Great Recession." Although not consistently successful, the State has recently secured needed funds for rail improvements through the receipt of competitive grant funds through the federal TIGER V and TIGER VII grant program. In 2013, the State received a $9 million Federal Railroad Administration Grant (for an $11.2 million improvement project) in the TIGER V funding round. Work began in 2013 on 10.12 miles of Continuous Welded Rail (CWR) upgrades and the improvement of 11 farm crossings, 1 siding, and 9 switches. This work is scheduled to be completed in 2017. In 2015, the State also was awarded a $10 million Federal Railroad Administration Grant for a $26.4 million project from the TIGER VII funding round to complete another 11.31 miles of CWR rail upgrades, to improve the Florence and Leicester siding, and to complete bridge, crossing and platform improvements. Despite these funding successes, because there is no consistent, dedicated federal funding source for rail transportation in the U.S., it is difficult to predict the level of resources that will be available to fund future capital needs identified in the State's USRP.

Transit. There are ten public transit providers in the State, which provided an estimated 4.72 million passenger trips in State fiscal year 2016. Most routes and categories across the State experienced modest increases in ridership in fiscal year 2016. However, the poor skiing season in Winter 2016 adversely impacted ridership on tourism routes and caused an overall ridership decline of 6% in fiscal year 2016 versus the 2015 fiscal year ridership levels. Statewide non-tourism transit ridership saw a modest increase, but the ski season decrease reduced the last six-year increase in ridership to only about 3% overall. Roughly half of the statewide ridership in Vermont is attributable to the Chittenden County region, and the other half of the ridership is spread throughout the rest of the State. Historically, it is noteworthy that ridership between fiscal years 2013 and 2014 was adversely impacted by a drivers' strike at the Chittenden County Transportation Authority. The State is also served by three private intercity providers, including Greyhound Bus Lines, Vermont Translines, and Megabus.

Aviation. There are 16 public use airports in Vermont. These include ten State-owned airports, with the State managing 90 runway miles at those facilities, five private airports, and two that are municipally owned, including Burlington International Airport ("BIA"). During calendar year 2016, enplanements at BIA totaled 604,576, an increase of 1.77% from the 594,034 enplanements in calendar year 2015 but below the 611,805 enplanements total in calendar year 2014. For the first two months of calendar year 2017 (corresponding to the latest data available), passenger enplanements at the BIA totaled 86,804, down 2.3% as compared to the passenger total for the first two months of calendar year 2016 when there were 88,888 enplanements.

As of July 2017, the list of commercial air carriers serving BIA includes eight national and regional carriers serving Atlanta, New York (John F. Kennedy and LaGuardia Airports), Newark, Philadelphia, two of the three Washington, D.C. area airports, and Charlotte, North Carolina. In addition, carriers also provide non-stop service to Chicago, Cleveland, and Detroit. Jet Blue Airlines continues to be the most significant carrier. Other major carriers currently at BIA include United Airlines, Delta Airlines, and American Airlines. Regional carriers include Porter Airlines and Allegiant Air. Porter Airlines provides seasonal service to Billy Bishop Toronto City Airport, providing travel to Vermont ski areas for Ontario-based Canadian customers during the winter months. The airport is also served by Luxe Air, a private charter service serving domestic and international destinations.

In 2016, Rutland Southern Vermont Regional Airport ("RSVR") had over 6,000 enplanements including regular passenger service offered via Cape Air. A total of 1,500,000 pounds of cargo moved through RSVR in 2016 and 545,000 pounds of cargo moved through Knapp State Airport in Berlin.

Utilities

General. Pursuant to 30 V.S.A. §218c1, each regulated electric or gas company is required to prepare and implement a least cost integrated plan (also called an integrated resource plan, or "IRP") for provision of energy services to its Vermont customers. The IRP process and the implementation of each Vermont utility's approved plan are intended to meet the public's need for energy services, at the lowest present value life cycle cost (including environmental and economic costs), through a strategy combining investments and expenditures on energy supply, transmission and distribution capacity, transmission and distribution efficiency, and comprehensive energy efficiency programs. The State currently allows for "economic development" rates for portions of the power used by businesses in Vermont subject to the approval of the Vermont Public Utility Commission ("VPUC"), formerly the Vermont Public Service Board, the State utility regulatory body that grants certificates of public good for utility projects. Many businesses have filed for and received approval for such rates in conjunction with their service provider over the past several years including large manufacturers and ski resorts.

Electricity. In recent years, there have been a number of developments that have contributed to the stability of the electric utility industry in Vermont. For example, when other states were moving aggressively toward retail choice, Vermont elected to preserve an approach where retail customers continue to receive service from vertically integrated, regulated electric utilities. The State also has taken steps to move toward using more distributed energy sources — including wind, solar and other renewable sources. State law sets ambitious goals for Vermont to serve its energy needs from renewable sources. Very broadly, it is the State's goal to obtain 90% of its energy needs (including all uses such as electricity, heating and cooling, and transportation) from renewable sources by 2050. Intermediate goals include obtaining 25% of its energy needs from renewables by 2025 (including meeting 10% of the State's transportation energy needs from renewable sources by that same year), and 40% of the State's total energy needs from renewable sources by 2035.

Every six years, the Vermont Department of Public Service ("DPS") is required to complete and release updates to the State's Comprehensive Energy Plan (required by 30 V.S.A. § 202b) and the Vermont Electric Energy Plan (required by 30 V.S.A. § 202). The most recent six-year plan updates, released in January 2016, addressed the State's move toward distributed renewables, incorporating the views of stakeholders such as utilities, environmental groups, renewable energy advocates, and consumers. The DPS is currently working with regional planning commissions to update regional and municipal energy plans to include practical steps to support the State's broader goals for encouraging energy generation from renewable sources—including the refinement of guidelines for municipal review of the siting of solar and wind generation projects.

With respect to the State's electric supply needs over the next ten years, the State's major utility, Green Mountain Power Corporation ("GMP"), has put in place several long-term power purchase agreements that will enable the State to have adequate energy supplies over the next several years. Examples of such agreements include, (i) an agreement with NextERA Energy Resources, LC—the owner of the Seabrook, New Hampshire nuclear power plant—to purchase initially 60 megawatts of power (decreasing to 40 megawatts later on in the contract) over a 23 year period which commenced in May 2011; and (ii) an agreement with Hydro-Quebec to purchase 225 megawatts of power over the 2012-2030 time period at what are reported to be advantageous prices beginning at $0.06 per kilowatt hour in 2012. Further, it has in place power supply agreements with other renewable energy projects, including a total of 82.8% of the output from the 99 megawatt Granite Reliable Wind generation project in Coos County, New Hampshire over the next 20 years.

Nuclear Energy. Also affecting supply on the regional level was the closure of the Vermont Yankee nuclear facility in Vernon (the "Vernon station"). The Vernon station permanently ceased electric power generation and was removed from the Independent System Operator in New England (ISO NE) grid on December 29, 2014. The permanent shutdown of the Vernon station reflected the August 27, 2013 announcement by Entergy Nuclear Vermont Yankee LLC ("Entergy") that, for economic reasons, it would be ceasing power production at the Vernon station permanently and moving to safe shutdown on or about December 31, 2014. The closure was announced even though the company had received a federal 20-year licensing extension from the Nuclear Regulatory Commission ("NRC") for operation of the Vernon station through 2032.

On December 23, 2013, Entergy, Entergy Nuclear Operations, Inc., the Vermont DPS and the Vermont Agency of Natural Resources entered into a Settlement Agreement (the "Entergy Settlement Agreement"), which effectively resolved all outstanding litigation relating to the closure of the Vernon station and established the groundwork for moving forward with the plant's closure and decommissioning. According to the Entergy Settlement Agreement, Entergy Nuclear Operations, Inc. was required to complete a site assessment study by December 31, 2014, including the costs and tasks of site restoration for the Vernon station site. In addition to the site assessment study, the Entergy Settlement Agreement provided for the following: (1) the dismissal of outstanding litigation among the parties, (2) the continuation of all existing tax obligations by Entergy to the State, (3) a commitment by Entergy to make a payment of $5 million to the Vermont Department of Taxes before April 25, 2015, and (4) a commitment by Entergy to make a total of $25 million in payments to a Site Restoration Fund between January 2014 and December 31, 2017. In addition, pursuant to the Entergy Settlement Agreement, Entergy is required to (i) release all escrowed monies as of the date of execution of the Entergy Settlement Agreement to the Clean Energy Development Fund in January 2014, and (ii) make a total of $10 million in payments (consisting of annual installments of $2 million) to the Vermont Agency of Commerce and Community Development over the 2014 through 2018 period to promote economic development in Windham County—which is the county in Vermont where the Vernon station is located. The last item is designed to assist the economic transition of the southern

Vermont region due to the closing of the Vernon station—the facility's impacts also stretch geographically into southern New Hampshire and northwest Massachusetts. In exchange for the above, the parties to the Entergy Settlement Agreement agreed to support a petition by Entergy and Entergy Nuclear Operations, Inc. to amend its Certificate of Public Good ("CPG") from the VPUC to operate the Vernon station to include the period of March 21, 2012 through December 31, 2014—or through the end of its then-current operating cycle. The amendment to Entergy's CPG was subsequently granted by the VPUC on March 28, 2014. To date, all of the State provisions of the Entergy Settlement Agreement have proceeded as planned.

The closure of the Vernon station is expected to have no direct economic, financial or rate impact on Vermont utilities or rate payers. According to ISO-NE, there is sufficient generation capacity without the Vernon station to supply the energy needs of Vermont utilities and to reliably serve the energy needs of customers throughout the New England region. At closing, the Vernon station did not sell any power to Vermont utilities and represented about two percent (2%) of generation capacity for ISO-NE with a maximum dependable capacity of 605 megawatts. ISO-NE had, in fact, permitted the Vernon station to delist from forward capacity auctions starting in 2013.[3]

In December 2014, Entergy submitted a Post Shutdown Decommissioning Report to the NRC. This report estimated that the total cost for decommissioning the reactor would be $1.24 billion. The same document reported that, as of August 2014, only $653 million had accrued in the decommissioning fund over the 42 years of operations of the Vernon station for this purpose. As such, it is expected that full decommissioning will not occur for several decades and the plant will be decommissioned through the SAFSTOR process. The SAFSTOR process allows utilities to wait up to 60 years to complete decommissioning activities, and it is expected that SAFSTOR will allow Entergy more time to further build up the balance of the decommissioning fund to support the decommissioning expenditure requirements of the Vernon station as contained in the decommissioning plan.

In November 2016, Entergy administrators announced a tentative agreement to sell the Vernon station facility, its spent fuel, and its decommissioning trust fund to the New York-based NorthStar Group Services. Under the agreement, NorthStar has pledged to clean up most of the Vernon station site by calendar year 2030, well in advance of the plan set forth by Entergy's SAFSTOR-based decommissioning/cleanup plan. Both the NRC and VPUC will need to approve the acquisition following a review process. The first hearing on the sale proposal was held in April 2017, and the second hearing, originally scheduled to take place in September 2017, has been moved to January 2018 to accommodate the review's discovery process. The second hearing date regarding the proposed agreement is expected to take place following submission of relevant evidence to the VPUC but prior to the technical hearings on the matter. On July 30, 2017, it was announced that NorthStar had been acquired by J.F. Lehman & Co., a New York private equity firm. At this time, the State cannot predict the timing or outcome of the NRC and VPUC review process.

Hydroelectricity. In late July 2015, the DPS reached agreement with TDI-New England ("TDI") regarding its recent application for a CPG for a 154 mile underwater-underground transmission line designed to deliver 1,000 MW of hydroelectricity from Canada to the Vermont and New England market. The transmission line, if suitable financing can be secured, is to be constructed from the Canadian border to the Town of Benson, Vermont under 97 miles of Lake Champlain and underground for the final 57 miles to a new converter station located in the Town of Ludlow, Vermont. The underground portion of the line is expected to use a combination of town and State road right-of-ways and land owned by TDI. The estimated cost of the transmission line is $1.2 billion, and would be developed using private sector financing. The project is expected to be in service by 2019. Benefits to the State secured by the DPS and other State agencies in negotiations with TDI would total more than $720 million over the 40-year life of the project, including; (1) new resources for clean energy ($109 million) and clean water (including $202 million for the Clean Water Fund and $61 million for the Lake Champlain Enhancement and Restoration Trust Fund), (2) $136 million in direct ratepayer savings obtained through a separate agreement with the Vermont Electric Power Company ("VELCO"), and (3) $212 million in lease payments to the Vermont Agency of Transportation for use of State highway and State rail rights-of-way for the project. Also included in the agreement is the ability of Vermont utilities to purchase up to 200 MW of transmission capacity at a later date, if such capacity is needed or desired to meet the State's long-term energy needs. The agreement also stipulates that TD-New England will

[3] ISO-NE studied the needs of the high-voltage power transmission system serving the region (including Vermont and New Hampshire) for more than four years over the 2008 to 2012 period, including analyses of scenarios with and without Vernon station service. The most recent study (completed in 2012) showed that the regional power grid could be operated reliably without the Vernon station and without any substantial new investment in transmission facilities as a result of the closing of the Vernon station.

transmit only renewable power through the transmission lines. The VPUC approved the CPG on January 5, 2016, and the U.S. Department of Energy approved construction of the transmission line in December 2016. In March 2017, Massachusetts-based National Grid submitted a proposal to construct a 1,200 megawatt transmission line, the "Granite State Power Link," using a competing corridor through New Hampshire that would run alongside a currently existing high-voltage, direct current transmission line between Norton, Vermont and Monroe, New Hampshire. The State continues to closely track developments regarding the transmission of Canadian-generated electric power to under-supplied markets in other parts of the New England region.

In April 2017, 13 hydroelectric power generation facilities located in the Connecticut River Valley along the Connecticut and Deerfield Rivers between Vermont and New Hampshire were sold by TransCanada, who had owned the dams since 2005, to Great River Hydro for $1.07 billion. These facilities have a combined "nameplate" generation capacity of 584 megawatts, which ranks this system as the largest conventional hydro-electric generation system in New England.

Natural Gas. Natural gas is an important source of energy, both environmentally and economically, in northwestern sections of Vermont that receive natural gas service through Vermont Gas Systems, Inc. ("VGS"). Natural gas is currently supplied to Vermont from a connection at Highgate Springs to the Trans Canada Pipeline. VGS serves more than 42,000 customers in Chittenden and Franklin Counties. VGS' customer base recently has increased by about 3% per year. Expansion of gas distribution systems in Chittenden County continues with additional transmission pipeline upgrade looping segments constructed each year.

In December 2013, VGS obtained a CPG from the VPUC to undertake a roughly 43-mile expansion of its natural gas pipeline from Chittenden and Franklin counties into Addison County. While reported project cost increases of up to 40 percent in 2014 caused the VPUC to consider remanding the CPG for the Addison County pipeline during the late Summer 2014, ultimately the VPUC ruled in early October 2014 not to reconsider the December 2013 issuance of the CPG for this project. Subsequently, because the cost of the pipeline project increased yet again in December 2014 from $121.6 million to $154.0 million[4] (or approximately $86 million higher than the expected costs when the original CPG was issued),[5] the VPUC opened a second proceeding on the project to consider re-opening proceedings to reconsider the December 2013 CPG. Technical hearings on this question were held on June 22 and June 23, 2015 and legal briefs were filed by July 6, 2015. On March 30, 2017, the VPUC ruled that VGS was not required to obtain an amended CPG, and this decision was appealed in late April 2017. In addition, a citizen's group has also appealed the result of an eminent domain proceeding employed by the project for a public land parcel used in the pipeline construction process in the Town of Hinesburg, Vermont. The case has proceeded through the State courts and was argued before the Vermont Supreme Court in April 2017. As of August 1, 2017, a decision is still pending in that case. Further, on July 14, 2017, the VPUC agreed to open an investigation into whether VGS violated its CPG for the Addison County pipeline by failing to bury the pipeline at a minimum depth of four feet in 18 locations within the county. The investigation has just recently begun and is ongoing at this time.

Despite the above pending litigation and investigation, VGS announced that, as of April 2017, construction of the pipeline was completed and was being used for gas transmission to key business customers in Addison County. VGS expects that service will also be expanded to a significant number of new residential customers in the new distribution area as well over the next several years. At this point, it is unclear what impact, if any, the above pending litigation and investigation will have on current and future operations of the VGS pipeline even if the litigation and/or investigation is resolved adversely to VGS.

Telecommunications. Vermont currently has a robust and extensive telecommunications network. The State is currently served by well over a hundred companies that have been authorized by the VPUC to provide local telephone service (though many companies are not actively marketing service), and hundreds more are authorized to provide long distance service within the State. Changing technology is bringing further options in the form of wireless service and Voice over Internet Protocol (VoIP), which provides a voice communications service similar to telephone service via a broadband internet connection.

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[4] VGS was subsequently fined $100,000 under Board Rule 5.409 for failing to report the Addison Natural Gas Pipeline project's cost increases in a timely way to the VPUC and all parties involved with the original CPG proceedings.

[5] In February 2015, Phases 2 and 3 of the pipeline project were cancelled after International Paper ("IP") cancelled its participation in the project. IP cancelled the agreement to pay for Phase 2 after its estimated costs increased from $69 million to $135 million.

Vermont is served by ten incumbent local exchange carriers ("ILECs"). ILECs are the traditional carriers within their service territories and have a Provider of Last Resort (POLR) obligation to serve any reasonable request for service within their territory. The largest local phone company, FairPoint Communications ("FairPoint"), which serves about 85% of the State, is subject to an "incentive regulation" plan that allows it to introduce and change the prices of new services, but limits its ability to increase prices of pre-existing services. The rates of Vermont's nine rural ILECs, or RLECs, which collectively serve about 15% of the State, continue to be set on the basis of these companies' overall cost of providing service. In December 2016, the Illinois-based Consolidated Communications ("CC") announced plans to purchase FairPoint Communications for a reported $1.5 billion. On June 26, 2017, the VPUC approved the sale of FairPoint Communications to CC.

Within FairPoint's service territory, consumers have choices of FairPoint or various Competitive Local Exchange Carriers ("CLECs"). The CLECs and toll providers are subject to review of tariffs, but their prices are presumed to be reasonable due to their non-dominant position in the markets. Federal law allows the VPUC to consider whether the terms of service offered by wireless carriers are clear and reasonable, but does not allow the VPUC to establish limits on cellular service prices. Finally, at present, the Federal Communications Commission has at least partially preempted State regulation of cable modem service and VoIP, and some issues of regulation of these new technologies remain uncertain.

Ten years ago, only 75% of the State's locations had high speed internet access available, defined then as 768 kilobits per second (kbps) download and 200 kbps upload. According to the Vermont Department of Public Service, as set forth in its 2014 Telecommunications Plan, high speed service is now available in over 99% of the State with the remaining less than 1% having a funded solution in place, and 75% of households have access to speeds of four Mbps download and one Mbps upload, or faster. The State's goal is to ensure that every address in Vermont has access to broadband with the minimum technical requirements of four Mbps download and one Mbps upload by year end 2020.

With the State's expansion goals largely met, in 2014, the General Assembly initiated policy reforms through that legislation that shifts the State's focus from infrastructure expansion to speed. The General Assembly dissolved the Vermont Telecommunications Authority (the "VTA"), which had been established in 2007 to coordinate the development of telecommunications infrastructure, as an independent, non-profit entity and redirected its resources to a new organization within State government called the Division of Telecommunications and Connectivity (the "DTC"). The DTC has a similar makeup and mission to that of the VTA, but is focused on bringing access to Vermonters at threshold speeds of 4/1. The DTC promotes broadband development and improvements by coordinating State government initiatives, providing grants and planning, among other efforts as part of the Vermont Department of Public Service. The DTC has the ability to apply for support through the Vermont Universal Service Fund to assist in State efforts to expand and upgrade broadband service.

Wireless (cellular and PCS) telephone service in Vermont is provided by companies such as AT&T, Verizon Wireless, U.S. Cellular, T-Mobile, Sprint PCS, Vanu CoverageCo (which provides wholesale access for retail cellular carrier to its network in rural Vermont), and VTel Wireless. Of these providers, AT&T and Verizon Wireless have the deepest facilities-based penetration in Vermont. Mobile carriers are continuously expanding coverage and upgrading facilities to bring 4G/LTE service to existing coverage areas. The State's permitting regime has allowed expeditious deployment of wireless telecommunications facilities all around the State. Commercial Mobile Radio Service ("CMRS") providers offer both mobile and fixed data plans. Users can access service through a multitude of devices, including tablets, laptops and smartphones. Data plans offered by CMRS providers generally differ from landline offerings in that customers have data limits and pay data overage fees. Mobile data plans utilize a pricing model based on user consumption rather than speed of service. Mobile data services are often used to compliment users' primary internet connections. Users rely on mobile service when traveling, but use a wireline connection at home or in the office. For rural consumers, mobile data is increasingly becoming a significant source for broadband internet access.

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STATE FUNDS AND REVENUES

Budget Process

The Governor submits to the General Assembly, not later than the third Tuesday of every regular and adjourned session, a recommended budget for appropriations or other authorizations for State expenditures for the next succeeding fiscal year. The General Assembly then enacts into law an appropriation act, which must be approved by the Governor before expenditures may be made.

The budget process commences in July of each year when the Emergency Board determines estimates of available revenues based on a forecast for the next fiscal year. The Department of Finance and Management makes provisional allocations to the various budgetary entities ("Departments"), and an assessment of funding required to continue operations at the prior year's levels. Negotiation of revised or incremental funding levels, reflecting Departments' initiatives and priorities and directives from the Governor, while remaining within the projected revenue parameters, takes place through meetings between Departments and the Agency of Administration. Budget documents are submitted electronically, presenting appropriations and expenditures for the current and immediately prior fiscal years and the budget request for the subsequent fiscal year. The Emergency Board has historically updated the revenue forecast in January of each year, which may result in revised funding and programmatic recommendations, which are then presented by the Governor to the Legislature no later than the third Tuesday of every annual legislative session, as required by law. After extensive testimony, the Legislature passes an appropriations act and spending controls ("appropriations") are set up in the State's financial management system before expenditures can be made. In practice, annual budgets have been recommended by the Governor and annual appropriations have been approved by the Legislature and signed into law by the Governor.

Budgets are prepared and appropriated on a cash basis, usually at the program level. The Governor may amend appropriations within certain statutory limits. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation, unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Internal Control System

Managers across State government are responsible for seeking opportunities to improve their business processes and program results. The State of Vermont recognizes that appropriate internal controls must be in place to achieve these outcomes and minimize operational risks. The Department of Finance and Management works with departments across State government to assess and strengthen internal controls. An internal control system is designed to provide reasonable assurance regarding the achievement of objectives for effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. The majority of these efforts are directed by a designated internal controls unit within the Department of Finance and Management. Tools developed to assist in this effort include annual internal control self-assessments, associated best business practices, quarterly newsletters, and performance of operational reviews in agencies and departments.

The State of Vermont manages statewide accounting operations centrally through an Oracle-based enterprise-wide financial management system (VISION). Enterprise software improves the State's business processes by providing expanded functionality and by incorporating "best practices" and standardized procedures.

Comprehensive Annual Financial Report

The audit of the State's fiscal year 2016 Comprehensive Annual Financial Report (CAFR) was completed on December 27, 2016. The audited basic financial statements of the State for fiscal year 2016, together with KPMG LLP's unqualified opinion on these statements, are included as Appendix A to this Official Statement and as part of the State's fiscal year 2016 CAFR (pages 13 through 175) at Finance & Management's website at http://finance.vermont.gov/reports-and-publications/cafr.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State for its CAFR for the fiscal year ended June 30, 2016. This was the ninth consecutive year that the State has achieved this award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The State expects to submit its fiscal year 2017 CAFR to the GFOA to determine its eligibility for additional certificates.

KPMG LLP has not been engaged to perform and has not performed, since the date of its report referenced in this Official Statement, any procedures on the financial statements addressed in that report. KPMG LLP has also not performed any procedures relating to this Official Statement.

All fiscal year 2017 and fiscal year 2018 information set forth in this Official Statement is preliminary, unaudited and subject to change.

Government-Wide Financial Statements

Vermont's Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in the entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from the government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate component units.

The statement of activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net position (the amount by which assets and deferred outflow of resources exceed liabilities and deferred inflow of resources) are reported on the Statement of Net Position in three components:

(1) Invested in capital assets, net of related debt – total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that is related to the acquisition or construction of those assets including related deferred outflows of resources and deferred inflows of resources;

(2) Restricted – for amounts when constraints placed on the net assets are either externally imposed, or are imposed by constitutional provisions or enabling legislation.

(3) Unrestricted – the total net assets which do not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

Fund Structure

The State's financial statements are structured into three fund types: governmental, proprietary and fiduciary. The funds in the governmental and proprietary fund types are further classified as "major" or "non-major" depending upon their size in relation to the other funds and importance to the financial statement users, as required by Governmental Accounting Standards Board ("GASB") Statement No 34. (See Note 1 in the State's fiscal year 2016 audited financial statements attached hereto as Appendix A for further explanation of these criteria.)

Governmental Fund Types

In accordance with GASB Statement 54, the fund balance amounts for governmental funds are reported in classifications that comprise a hierarchy (nonspendable, restricted, committed, assigned or unassigned) based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

- **Nonspendable** fund balances include items that cannot be spent due to legal or contractual requirements to remain intact, and items that are not in spendable form.

- **Restricted** fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- **Committed** fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. The same type of formal action is necessary to remove or change the specified use.

- **Assigned** fund balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed.

- **Unassigned** fund balances are the residual amount of the General Fund not included in the four categories above, and any deficit fund balances within other governmental fund types.

The general characteristics of the fund types are as follows.

General Fund (Major Fund): By act of the General Assembly, the General Fund is established as the basic operating fund of the State. The General Fund is required to be used to finance all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any other designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Special Revenue Funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects, and include the following:

Transportation Fund (Major Fund): Revenues of this fund are used for expenditures associated with overall construction and maintenance of the State's transportation system, state police, debt service requirements on general obligation bonds and notes issued for transportation capital projects (which include the State Transportation and Highway bonds and notes). The principal sources of revenue in this fund are Motor Fuel Taxes, Purchase and Use Taxes, license and permit fees for motor vehicles, and reimbursements from the federal government for highway programs. Within the Transportation Fund there exists a sub-fund, the Transportation Infrastructure Bond Fund (the "TIB Fund"), to which assessments on gasoline and diesel fuel are credited as dedicated revenues. Under State law, these revenues are used first for debt service requirements on the State's special obligation transportation infrastructure bonds, any associated reserve or sinking funds and any associated costs of such bonds. To the extent additional TIB Fund resources are available for such purposes, these revenues are used for pay-as-you-go capital projects or other authorized purposes. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future. See "RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS – Budget Stabilization Reserves."

Education Fund (Major Fund): Established by the Equal Educational Opportunity Act of 1997 and effective July 1, 1998, the revenues of this fund finance the State's support of K-12 public education, as well as property tax reform. In accordance with 16 V.S.A. 4025(a) as amended, the sources of revenue in this fund are as follows: statewide education property tax; revenues from the State lotteries; revenue from the electric generating plant education property tax; one-third of the motor vehicle Purchase and Use Tax; 35% of the Sales and Use Tax; Medicaid reimbursements pursuant to 16 V.S.A. 2959a(f) and funds appropriated or transferred by the General Assembly. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future.

Federal Revenue Fund (Major Fund): All federal grant receipts are recorded in this fund, except for those federal funds specifically earmarked for the Global Commitment to Health Medicaid section 1115 waiver, transportation or fish and wildlife purposes. Grants of these types are recorded in the State's Global Commitment Fund, Transportation Fund and Fish and Wildlife Fund, respectively. Major categories of expenditure within the Federal Revenue Fund are for various health, education and welfare programs, the State counterpart of which is reflected in the General and Special Funds.

Special Fund (Major Fund): These funds account for proceeds of specific revenues not otherwise categorized that are limited to expenditures for specific purposes. These purposes cover the entire spectrum of State government.

Global Commitment (to Health) Fund (Major Fund): This is a major special revenue fund created in 33 V.S.A. 1901e. It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal government. During fiscal year 2017, the waiver agreement was renewed through December 31, 2021. This agreement caps Federal expenditures for Medicaid services, but gives Vermont great latitude in promoting universal access to health care, cost containment and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies.

Fish and Wildlife Fund (Non-major Fund): Receipts are restricted by statute and can only be used for fish and wildlife purposes. The principal sources of revenue are license fees and Federal grants.

Capital Project Funds (Non-major Funds): These funds account for capital improvement appropriations that are or will be primarily funded by the issue of State bonds. Separate bond funds are maintained as corollaries to both the General Fund and Transportation Fund.

Debt Service Funds (Non-major Funds): These funds account for and report financial resources that are used to pay debt principal and interest. Separate debt service funds are maintained for general obligation bonds and special obligation transportation infrastructure bonds. Appropriated General, Transportation and Special Fund resources are transferred to the General Obligation Bonds Debt Service Fund for debt service payments on general obligation bonds. Appropriated TIB Fund resources are transferred to the Transportation Infrastructure Bonds Debt Service Fund for debt service payments on special obligation transportation infrastructure bonds.

Permanent Funds (Non-major Funds): These nine funds report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or its citizenry, such as higher education, cemetery care and monument preservation.

Proprietary Fund Types

Enterprise Funds: These funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the State's intent is that the costs of providing goods or services to the public be financed or recovered primarily through user charges, or (b) where the State has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. These types of funds are reported in both major (3 funds) and non-major (6 funds) categories as described above.

Internal Service Funds: There are 24 funds of this non-major type reported by the State. These funds are used to account for the financing of goods and services provided by one State department or agency to other State departments, agencies, or other governmental units on a cost-reimbursement basis. These funds are consolidated into one column and are reported in the Proprietary Funds' financial statements.

Fiduciary Fund Types

These funds account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These funds include the following:

Pension and Other Employee Benefit Trust Funds: These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement (defined benefit) System, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account, the State Employees' Postemployment Benefit Trust Fund, the Retired Teachers' Health and Medical Benefit Fund and the Vermont Municipal Employees' Health Benefit Fund. See "PENSION PLANS."

Investment Trust Fund: Under the authority granted in 3 V.S.A. 523, beginning in fiscal year 2009, the State Treasurer created and began accepting deposits into the Vermont Pension Investment Committee (VPIC) Investment Pool, an external investment pool. The investment trust fund is used to account for the investments of any external participants in the Pool. During fiscal year 2016, the sole external participant withdrew from VPIC. As of the date of this Official Statement, the VPIC is considered an internal investment pool.

Private Purpose Trust Fund: The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The State Treasurer administers procedures for returning this property to its rightful owner if he/she can be located. In addition to monetary assets, from time to time the State Treasurer may have custody of tangible property that has not been valued and therefore is not reported in the financial statements. Each year, the fund retains the greater of $100,000 or 50 percent of the amount received during the previous year, and the balance is transferred to the General Fund. Amounts for which the eligibility period for being claimed has expired are transferred to the Higher Education Endowment Fund (a permanent fund).

Agency Funds: These funds report assets and liabilities for deposits and investments entrusted to the State as agent for others. They have no fund balance and report items such as Federal income tax withholding, social security tax withholding and State income tax withholding.

GAAP-Based Fund Results

The following is selective comparable financial information based on audited financial data for specific governmental funds for fiscal years ending June 30, 2016 and 2015 as contained in each fiscal year's CAFR. **Fiscal year ending June 30, 2017 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

As of June 30, 2016, the General Fund had a $139.3 million total fund balance as compared to a $133.0 million total fund balance as of June 30, 2015, an increase of $6.3 million. This increase is a combination of a $8.3 million increase in the nonspendable portion of this fund balance to $114.6 million in 2016, and a $66,343 increase in the assigned portion of this fund balance to $5.9 million in 2016, offset by a $2.1 million decrease in the unassigned portion of this fund balance to $18.9 million in 2016. As of both June 30, 2016 and June 30, 2015, there was no fund balance in the General Fund categorized as restricted or committed.

As of June 30, 2016, the Transportation Fund had a $19.0 million total fund balance as compared to a $27.2 million total fund balance as of June 30, 2015, a decrease of $8.2 million. This decrease is the combination of a decrease in the restricted portion of this fund balance from $4.5 million in 2015 to $405,505 in 2016, and a decrease in the committed portion of this fund balance from $22.7 million in 2015 to $18.6 million in 2016. This committed fund balance includes the statutory budget stabilization reserve. As of both June 30, 2016 and June 30, 2015, there was no fund balance in the Transportation Fund categorized as nonspendable, assigned or unassigned.

As of June 30, 2016, the Education Fund had a committed and total fund balance of $81.7 million, an increase of $7.9 million compared to the balance as of June 30, 2015. This committed fund balance includes the statutory budget stabilization reserve. As of both June 30, 2016 and June 30, 2015, there was no fund balance in the Education Fund categorized as nonspendable, restricted, assigned or unassigned.

As of June 30, 2016, the budget stabilization reserves in the General, Transportation, and Education Funds were funded at their respective maximum statutory levels.

As of June 30, 2016, the Global Commitment Fund had a total fund balance of $105.9 million, a decrease of $8.5 million compared to the balance as of June 30, 2015. This decrease is the combination of net transfers in of $538.6 million together with federal grant and other revenues of $973.9 million offset by expenditures of $1,520.8 million. The Global Commitment Fund has no legislatively mandated budget stabilization reserve.

As of June 30, 2016, the Federal Revenue Fund reported a total fund balance of $453.3 million, which was an increase of $17.1 million compared to the June 30, 2015 balance of $436.2 million. The entire fund balance is restricted by agreements with the grantors. There is no budget stabilization reserve in the Federal Revenue Fund.

State General Fund Revenues

The principal sources of State General Fund revenues are the Personal Income Tax, the Corporate Income Tax, a general State Sales Tax, and a Meals and Rooms Tax. These four tax sources accounted for 86.6% of the General Fund revenue in fiscal year 2017.

The following is a brief discussion of the principal General Fund revenue sources.

<u>Personal Income Tax</u>: From January 1, 1994 through December 31, 1999, Vermont Personal Income Tax was calculated as 25% of a taxpayer's federal income tax liability. On January 1, 2000, the Vermont Personal Income Tax rate was reduced to 24% of the taxpayer's federal income tax liability. For tax years 2001 and 2002, Vermont Personal Income Tax liability was redesigned to substantially maintain the State's revenue base prior to the passage of the federal tax cuts that were effective in 2001 and in 2003. During the 2002 meeting of the Vermont General Assembly, the temporary measure of calculating Vermont income tax based on federal taxable income for tax years 2001 and 2002 was made permanent by the development and implementation of standardized Vermont tax tables utilizing the same revenue base maintenance approach devised under the 2001 to 2002 temporary change. During the 2015 session, the Vermont General Assembly passed legislation that reduced or eliminated certain tax deductions for Vermont Personal Income Tax purposes. These included the elimination of the deduction for state and local taxes paid, and placed a cap at 2 ½ times the standard deduction (excluding medical and charitable deductions) on the amount of itemized deductions for taxpayers. In addition, the 2015 changes included a 3.0% minimum Vermont Personal Income Tax for all filers with an adjusted gross income at or above $150,000. In fiscal year 2017, the Personal Income Tax accounted for $756.5 million or 51.9% of net General Fund revenues.

<u>Sales and Use Tax</u>: The 2003 Vermont General Assembly increased the general Vermont Sales and Use Tax rate from 5% to 6% effective October 1, 2003. Major exemptions to the State's general Sales and Use Tax include sales of food, medicine, clothing, manufacturing and agricultural supplies and equipment, and fuel and electricity for domestic, manufacturing or agricultural use. Effective September 1, 1997, a telecommunications sales tax of 4.36% was implemented to, in part, fund Act 60 (the State's education finance reform legislation). The telecommunications sales tax rate was increased to the general sales tax rate of 6% effective October 1, 2003. Effective July 1, 2004, the statutory structure of these taxes changed from: (1) 100% of the annual receipts of the general Sales and Use Tax to the General Fund, and (2) 100% of the gross receipts of the telecommunications tax to the Education Fund, to a statutory transfer of one-third of total gross Sales and Use Tax receipts (inclusive of the telecommunications tax) from the General Fund to the Education Fund. Effective January 1, 2007, the State also became a participant in the multi-state Streamlined Sales Tax Agreement (SSTA). The SSTA is a multi-state effort to simplify and streamline state 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. Effective July 1, 2013, the allocation of gross Sales and Use Tax receipts to the Education Fund and General Fund changed from 33% and 67%, respectively, to 35% and 65%, respectively. During the 2015 session, the Vermont General Assembly passed legislation that made the 6% Sales and Use Tax applicable on soft drinks sold in the State effective July 1, 2015. In addition, during fiscal years 2016 and 2017 the Vermont Department of Taxes took several actions designed to sustain the State's taxable base which have resulted in tax receipts for certain e-commerce-based transactions. Beginning in fiscal year 2019, the statutory percentage of gross receipts from the Sales and Use Tax transferred to the Education Fund is scheduled to increase from 35% to 36%. In fiscal year 2017, the Sales and Use Tax totaled $244.9 million or 16.8% of net General Fund receipts.

<u>Meals and Rooms Tax</u>: A 9% tax is imposed on taxable meals and the rent for each occupancy. The Meals and Rooms Tax imposed on liquor consumed on the premises is 10%. Through June 30, 2004, the law required a statutory transfer of 20% of gross receipts less the sum of $1.56 million from the General Fund to the Education Fund. Since July 1, 2004, 100% of the gross receipts from this tax will remain in the State's General Fund. During the 2015 session, the Vermont General Assembly passed legislation that made the 9% meals tax applicable on all

food sold in vending machines effective July 1, 2015. Starting in fiscal year 2017, the State began receiving rental occupancy revenues from Airbnb providers, a fast growing, but non-traditional group of room providers in the State that previously had not been remitting Meals & Rooms Tax to the State. In fiscal year 2017, Meals and Rooms Tax revenues amounted to $165.3 million or 11.3% of revenues available to the General Fund.

Corporate Income Tax: From January 1, 1997 until January 1, 2006, the net income of corporations was taxed at the greater of $250 or the following rates: first $10,000 – 7.0%; next $15,000 – 8.1%; next $225,000 – 9.2%; excess over $250,000 – 9.75%. For tax year 2006, the tax was the greater of $250 or: first $10,000 – 6%; the next $15,000 – 7%; next $225,000 – 8.75%; excess over $250,000 – 8.9%. Beginning in 2007, the rates were unchanged through $25,000 and the rate on the excess over $25,000 was 8.5%. For the tax years beginning in 2002, Vermont made adjustments to its Corporate Income Tax designed to substantially maintain the State's tax base that was in effect prior to the changes in depreciation expenses included in the federal stimulus legislation effective in 2001. Subsequent federal bonus depreciation legislation has not reduced the State's base because of these adjustments. Beginning with tax year 2006, the income of affiliated corporations operating a unitary business was computed using the combined reporting methodology. Also beginning with tax year 2006, the three-factor formula for apportioning income earned from a multi-state business was modified to weight the percentage of sales in the State at 50% and the percentage of property and payroll at 25% each (prior law weighted each factor as one-third). Beginning on July 1, 1998, 19% of the gross tax collected on corporate income (including S corporations, partnerships, and limited liability companies) was allocated from the General Fund to the Education Fund. Effective July 1, 2004, 100% of the gross receipts from this tax remains in the General Fund. Corporate Income Tax receipts in recent years have been impacted by mergers and acquisitions activity within the State. In fiscal year 2017, receipts from the Corporate Income Tax were $95.8 million or 6.6% of the revenues available to the General Fund.

Insurance Tax: Insurance companies are taxed at a rate of 2.0% per annum on the gross amount of premiums and assessments written in the State, exclusive of premiums for reinsurance. Additionally, captive insurance companies are taxed based on the volume of premiums written. The rate schedule for captive insurance rates was reduced in 2003 to a range from .0038 to .00072 (from previous rates of .004 to .00075) in order to reinforce the State as a preferred domicile for captive insurers in an increasingly competitive industry climate. In fiscal year 2017, insurance taxes accounted for $57.0 million or 3.9% of net General Fund revenues.

Telephone Receipts and Property Tax: In addition to the general Corporate Income Tax, a tax of 2.37% is levied on net book value of personal property in the State of persons or corporations owning or operating a telephone line or business within the State. For businesses with less than $50,000,000 in annual gross operating receipts in the State in the preceding taxable year, taxpayers may elect to pay the gross receipts tax of 5.25% in lieu of the income and property tax. Effective June 7, 2004, no new elections to pay the gross receipts tax may be made. In fiscal year 2017, telephone receipts and property taxes generated $5.7 million or 0.4% of net General Fund revenues.

Real Property Transfer Tax: A tax is imposed upon the transfer by deed of title to property located within the State. The rate is 0.5% on the first $100,000 of a purchaser's principal residence and 1.25% on the amount over $100,000. For a non-principal residence, the rate on the entire amount is 1.25%. Beginning in fiscal year 2000, 33% of the receipts from the property transfer tax are retained by the General Fund, and the remainder deposited directly into the Housing and Conservation Trust Fund and the Municipal and Regional Planning Fund. In recent years, the General Assembly has often modified this formula to the benefit of the General Fund. During the 2015 session, the Vermont General Assembly passed legislation that imposed a 0.2% surcharge on all transactions subject to the Property Transfer Tax for the period from July 1, 2015 through June 30, 2018. The proceeds of this surcharge were earmarked for the Clean Water Fund (the "CWF"), a new special fund created to provide resources to assist in pollution mitigation efforts for Lake Champlain. During the 2017 session, the Vermont General Assembly earmarked the first $2.5 million of all Property Transfer Tax Revenues to pay debt service for housing bonds, which the Vermont Housing and Conservation Board will use to create new affordable housing. In addition, the 2017 Vermont General Assembly repealed the June 30, 2018 sunset of the 0.2% Property Transfer Tax surcharge on all transactions subject to the Property Transfer Tax and extended it through June 30, 2027. From July 1, 2027 through June 30, 2039, the 2017 Vermont General Assembly reduced the surcharge to 0.04%. The 0.04% surcharge then sunsets on July 1, 2039. The proceeds of the surcharge through June 30, 2017 are earmarked for the CWF. For fiscal year 2018 and beyond, the proceeds of the surcharge will be used to support affordable housing funded through the Vermont Housing and Conservation Trust Fund (the "VHCTF") and clean water initiatives funded through the CWF. Annually until the surcharge sunsets in 2039, the VHCTF will receive the first $1.0 million of all Property Transfer Tax surcharge revenue with the exception of fiscal year 2018. For fiscal year 2018, the first $1.0 million in surcharge revenue will be deposited in the General Fund. The remainder of all surcharge revenue until

June 30, 2027 must be deposited into the CWF. After June 30, 2027, when the surcharge rate declines to 0.04%, the remainder of all surcharge revenue will be deposited into the VHCTF. In fiscal year 2017, gross receipts from the Property Transfer Tax totaled $38.8 million. After statutory transfers, net receipts totaling $12.6 million or 0.9% of revenues available were retained by the General Fund in fiscal year 2017.

Liquor Tax: A tax of 25% of gross revenues is assessed upon the sale of spirituous liquor. In fiscal year 2017, liquor taxes generated $19.1 million or 1.3% of net General Fund revenues.

Beverage Tax: Beverage taxes are levied on bottlers and wholesalers of malt and vinous beverages at the rates of $0.265 and $0.55 per gallon, respectively. Vinous beverages are also subject to the general State sales tax. Beverage taxes accounted for $6.9 million or 0.5% of net General Fund revenues in fiscal year 2017.

Estate Tax: Transfers of estates are taxed in an amount equal to the federal credit for State death taxes as computed from the Internal Revenue Code in effect on January 1, 2001. Effective for tax year 2009 and beyond, the Estate Tax exclusion for the State is maintained at $2.0 million. The estate tax accounted for $16.7 million or 1.1% of net General Fund revenues in fiscal year 2017.

Electric Energy Tax: The tax on electric generating plants of 200,000 kilowatts or more constructed in the State after July 1, 1965 has been restructured several times in recent years. Prior to 2000, plants were assessed a tax of 3.5% of the assessed value thereof (defined as original cost less deprecation as required to be reported to the Public Service Department). Beginning in 2000, the tax rate was reduced to 2.75% and the deduction allowed for local taxes was repealed. At the same time, an education tax of 2.0% of the appraised value was imposed. Beginning in 2004, the electric energy tax was restructured as a generating tax with a rate schedule ranging from $2.0 million to $2.6 million plus $.40 per megawatt hour in excess of 4,200,000 (and the education tax was similarly restructured with a rate schedule ranging from $1.465 million to $1.9 million plus $0.29 per megawatt hour in excess of 4,200,000). Effective July 1, 2013, the rate schedule was replaced with a generating tax of $0.0025 per kilowatt hour (and the education tax was repealed). In fiscal year 2017, the tax did not generate any tax receipts because the Vermont Yankee generating facility in Vernon, which had historically generated all of the tax receipts in this tax source, ceased operations in December 2014. No decisions or proposals have yet been made regarding whether or how this tax might be modified in order to allow the State to receive a similar amount of tax receipts as was received in prior years when this facility was engaged in electric power generation. See "STATE ECONOMY – Utilities" above for information concerning the Vermont Yankee facility.

Bank Franchise Tax: The State levies a bank franchise tax based on average monthly deposits. The tax rate on such deposits was increased from .004% to .0096% pursuant to Act 60 Property Tax Reform legislation. Beginning on July 1, 1998 and through June 30, 2004, 58.3% of total collections in this tax source are allocated to the Education Fund. As of July 1, 2004, 100% of gross receipts from this tax have been dedicated to the General Fund. Bank franchise tax revenues were $13.2 million, which represented 0.9% of revenues available to the General Fund in fiscal year 2017.

Other Taxes-Fees: In addition to the taxes discussed above, the State levies taxes and other minor fees that are credited to the General Fund. For fiscal year 2017, this category included securities registration fees revenues. Securities registrations fees were doubled beginning in fiscal year 2017 by the 2016 Vermont General Assembly. In addition, one-time revenues were received in fiscal year 2017 from tax preparer software companies to compensate the State for tax year 2016 errors pertaining to the Personal Income Tax changes enacted by the 2016 Vermont General Assembly. Net revenues in this category for fiscal year 2017 were $61.2 million or 4.2% of revenues available to the General Fund.

State Transportation Fund Revenues

The following is a brief discussion of the major sources of Transportation Fund revenues and the amount derived from each source in fiscal year 2017.

Purchase and Use Tax: A Purchase and Use Tax that is equivalent to the sales tax rate is assessed on the "taxable cost" (purchase price or value, less allowance for resale value of buyer's used vehicle) upon first registration of the motor vehicle. Effective August 1, 1997, the Purchase and Use Tax was increased from 5% to 6% pursuant to Act 60 property tax reform legislation. Beginning on July 1, 1998, 16.7% of total collections in this tax source began to be deposited directly into the Education Fund. Effective July 1, 2000, a $750 ceiling on trucks over 6,100 lbs., agricultural vehicles, school buses, trailers, and motorcycles was increased to $1,100. As of July 1, 2004, one-third of gross receipts collected under this tax is deposited directly into the Education Fund pursuant to Act 68 of the Acts of 2003. During the 2006 session, the Vermont General Assembly changed the statutory cap on taxes paid to $1,680 effective July 1, 2007. The 2009 Vermont General Assembly and the 2016 Vermont General Assembly also made minor changes to this tax. After the statutory transfer of receipts to the Education Fund, revenues totaling $68.8 million, representing 25.4% of net revenues available to the Transportation Fund, were received in fiscal year 2017.

Motor Vehicle Fees: A registration fee is collected on all motor vehicles and trailers with the amount determined by the type, size, weight, and function of the vehicle. Driver's license fees are also included in this category as well as miscellaneous registration and license fees. During the 2006 session, the Vermont General Assembly passed legislation that generally increased all motor vehicle fees effective July 1, 2007. In 2009, 2012, and 2016, the Vermont General Assembly increased certain fees. In fiscal year 2017, motor vehicle fees accounted for $86.2 million, or 31.8% of net revenues and fees available to the Transportation Fund.

Motor and Diesel Fuel Taxes: Effective August 1, 1997, pursuant to Act 60 property tax reform legislation, gasoline distributors are taxed at a rate of 19.0 cents (plus one cent per gallon petroleum licensing fee) per gallon sold. Beginning on July 1, 1999 and through June 30, 2004, 16.0% of total Gasoline Tax collections were allocated to the Education Fund. Effective July 1, 2004, 100% of the tax collected from gasoline distributors is dedicated to the Transportation Fund pursuant to Act 68 of the Acts of 2003. In fiscal year 2009, the Vermont General Assembly imposed a 2% assessment on the retail price of gasoline. Revenue from the assessment (along with a 3 cent-per-gallon assessment on diesel fuel that is collected at the wholesale level) is segregated from all other Transportation Fund revenue in a special fund, the TIB Fund, which is dedicated to the payment of the debt service on transportation infrastructure revenue bonds. See "STATE INDEBTEDNESS – Transportation Infrastructure Bonds" herein. Effective May 1, 2013, the ad valorem per gallon tax on gasoline was reduced from 19.0 cents per gallon to 18.2 cents per gallon and a new 2% Transportation Fund Assessment on the quarterly retail price of gasoline (subject to a 6.7 cents per gallon minimum and a 9.0 cents per gallon maximum) was levied through June 30, 2014. Effective July 1, 2014, a 4% levy is assessed on the retail price of gasoline (with a floor of 13.4 cents per gallon and a maximum of 18 cents per gallon) and the ad valorem tax per gallon was reduced by 6.1 cents to 12.1 cents per gallon. In fiscal year 2017, the motor fuel tax accounted for $78.2 million or 28.8% of net revenues available to the Transportation Fund.

Since 2000, a Diesel Tax has been imposed at the distributor level at 25 cents per gallon. Diesel fuel is also subject to the one-cent petroleum-licensing fee. Effective July 1, 2013, the ad valorem per gallon tax on diesel fuel was increased from 25 cents per gallon to 27 cents per gallon through June 30, 2014. Effective July 1, 2014, the Diesel Tax increased to 28 cents per gallon. In fiscal year 2017, the Diesel Tax accounted for $18.0 million or 6.6% of net revenues available to the Transportation Fund.

Other Taxes-Fees: These categories include all remaining sources of revenue for the Transportation Fund except Federal receipts. Some of the items are registration fees on off-road vehicles, a tax on aviation fuel, title fees, overweight permit fees, air and rail revenue and revenue from fines and penalties. During the 2006 session, the Vermont General Assembly passed legislation that changed the level of several fees in this category effective July 1, 2007. The 2009 Vermont General Assembly also changed other fees, effective July 1, 2009. In fiscal year 2017, these other sources of revenues accounted for $19.9 million or 7.3% of net revenues available to the Transportation Fund.

Education Fund; Property Tax Reform

In 1997, Vermont passed comprehensive legislation aimed at responding to a Vermont Supreme Court decision holding its system of funding education unconstitutional. The resulting law, known as Act 60, mandated substantial change to both the focus and funding of K-12 education. The focus of the system is on academic outcomes for children, incorporating standards based on performance and assessment while making the funding effort equitable between towns. The State has made several major changes to its funding model for primary and secondary public education since 1997.

Prior to Act 60, each school district funded educational expenditures within that district and set property tax rates and collected school taxes from the property owners of the district. School tax rates were determined by each school district and ranged from as little as $0.125 per $100 of listed property value in one school district to over $3.00 per $100 in another, adjusted for inequities in town grand lists of property values. The State gave aid through a foundation formula to help those towns that could not raise sufficient revenues.

Act 60 established an Education Fund with a number of revenue sources. The primary source was a statewide property tax at a rate of $1.10 per $100 of assessed value and a transfer from the State's General Fund. Other revenue sources to the new Education Fund were proceeds from the State's lottery program and a percentage of several other taxes. Under the Act, the State provided a block grant from the Education Fund to each school district on a per student basis commencing in fiscal year 1999. The law provided for the amount of the grant to grow based on the inflation index each year. Districts spending more than the block grant were paid from a subdivision of the Education Fund based on a supplemental, or local share, property tax with a unit rate set so that the total collected from all districts with spending over the block grant equaled the amount of the spending. The more a district spent per pupil above the block grant, the higher its local share rate would be.

In 2003, the Legislature passed Act 68, which was implemented in fiscal year 2005 and modified the statewide property tax system by classifying property as either homestead or nonresidential, taxing those classes differently. Homestead property was assessed at the rate of $1.10 per $100 of assessed value, multiplied by the district spending adjustment, while all other property was assessed at $1.59 per $100 and was not subject to the district spending adjustment. These rates have been adjusted annually based upon the Education Fund balance. For fiscal year 2017, the homestead and non-residential rates were $1.00 and $1.535, respectively.

Act 68 of 2003 also included an excess spending provision designed to discourage high per-pupil spending by school districts. Districts spending over the annual threshold are taxed a second time on the excess spending amount. The threshold amount is calculated annually as the product of (i) the statewide average district education spending per equalized pupil in the prior fiscal year, multiplied by (ii) a specified percentage. Act 68 set this percentage as 135% in fiscal year 2005, 130% in fiscal year 2006 and 125% in fiscal year 2007 and thereafter. In 2013, legislation was passed (Act 60 of 2013) that decreased the percentage to 123% in fiscal years 2015 and 2016, and to 121% in fiscal year 2017 and thereafter. In 2014, the Legislature passed Act 174, which modified the threshold amount calculation such that, rather than looking at data from the prior fiscal year, it would be based on the statewide average district education spending per equalized pupil in fiscal year 2014 adjusted for inflation. The base year was subsequently changed to fiscal year 2015 by Act 132 of 2016.The net effect of these changes was to lower the threshold above which school districts incur an additional tax for higher per pupil education costs.

In addition to business property tax relief provided to industrial and commercial owners, Act 60 and Act 68 each provided that any household with income of less than $75,000 would not pay more than 2% (adjusted for per pupil district spending) of that income for the statewide school taxes. The household income amount was raised to $85,000 for fiscal year 2007 and to $90,000 for fiscal year 2008 and after. If a household's income is over $90,000, the taxes on the first $250,000 of equalized homestead value may be eligible for calculation of an adjustment not based on income. Taxpayers may be eligible for additional benefits if their income is under $47,000 and the total applicable tax (municipal and school) exceeds between 2.0% and 5.0% of their income based on a tiered scale. The applicable percentage for the lowest income category was reduced from 3.5% to 2.0% for claims filed in fiscal year 2007 and after. The maximum adjustment amount for claims filed in fiscal year 2007 was $10,000, reduced to $8,000 for claims filed in fiscal year 2008 and after.

In 2006, the Legislature passed Act 185, which significantly altered the way property tax adjustments are paid. Whereas payments were formerly made directly to eligible taxpayers, with the passage of Act 185, adjustments were paid to the municipalities in which the funds were used to reduce the payable amount on taxpayers' property tax bills. For fiscal year 2008, that amount was paid to the municipality in which the homestead was located on or around July 1, 2007 for timely filed homestead declarations. A second payment to the municipalities occurred on or around September 15, 2007 for late filed declarations. For each fiscal year from and after fiscal year 2009, municipalities were notified of any property tax adjustment that was to be credited to a taxpayer's bill, but only the municipal tax portion of the adjustment was paid to the municipalities. Beginning in fiscal year 2010, property tax adjustments resolved after September 15 are paid directly to the claimant by the tax department, rather than through notification of the municipality in which the homestead is located.

In 2010, the Legislature passed Act 160, which retroactively changed the calculation of property tax adjustments for claims filed beginning January 1, 2010 and thereafter. Homeowners with interest and dividend income above $10,000 have the excess amount over that threshold counted twice in calculating the adjustment. In addition, the adjustment is limited to only the first $500,000 of equalized housesite value, and the additional adjustment of $10 per acre, up to five acres, which was added by statute in 2003, was eliminated. Act 160 made additional changes to the definition of "household income" for claims filed beginning in 2011, which eliminated all but the following exclusions: total income to certain business expenses of reservists, one-half of self-employment tax paid, alimony paid, and deductions for tuition and fees.

In 2011, the Legislature passed Act 45, which allowed the amounts paid by self-employed people for health insurance premiums to be excluded from the calculation of household income for property tax adjustment claims filed beginning in 2012. In 2012, the Legislature passed Act 143, which excludes health savings account deductions from the calculation of household income for property tax adjustment claims filed beginning in 2013.

The Statewide property tax is billed and collected at the local level. A netting process is followed, with the State paying any net amounts due the districts in three payments while the towns pay net amounts due the State in two equal payments. Municipalities retain a percentage of the total education tax collected upon timely remittance of net payments. Beginning in fiscal year 2009, the percentage was increased from 0.125% to 0.225%.

In addition to the bifurcated taxes in the General Fund and Transportation Fund mentioned above, and the property taxes discussed in this section, revenues from the State lotteries under Chapter 14 of Title 31 are also dedicated to the Education Fund as is one-third of the State's Sales and Use Tax and motor vehicle Purchase and Use Tax, effective July 1, 2004 pursuant to Act 68 referenced above. In addition, in past years the State has allocated 30% of Medicaid reimbursement revenues for qualified medical services provided to students in grades K-12 to the Education Fund consistent with Title 16 V.S.A. Section 2959a and recent changes in federal law governing those reimbursements. In fiscal years 2009 and 2010, the Legislature redirected the reimbursement revenues to the General Fund. Education Fund revenues from the Statewide education property tax, the Sales and Use Tax, the Purchase and Use Tax, and the State lottery for the two most recent fiscal years are shown in the table below. The Education Fund also has earned minimal interest income over these years.

	($ in millions)	
	Fiscal Year 2016	Fiscal Year 2017
Statewide Education Property Tax	$1,051.5	$1,050.1
Sales and Use Tax	129.8	131.8
Purchase and Use Tax	33.4	34.4
State Lottery	26.4	25.5

In 2014, the Legislature passed Act 166, which required districts to offer pre-K education for at least ten hours per week. Before that, offering pre-K was optional for each district. In 2015, the Legislature passed more significant education reform. Act 46 of 2015 was passed, which provides incentives to small school districts to merge, thereby maximizing operational efficiencies. This Act offers various incentives to districts that choose to merge if those mergers meet the requirements and goals of the Act including reductions in tax rates and continuation of small school grants. The Act also contains several disincentives such as the removal of a provision that allowed districts under-count the change in pupil numbers from the previous year when the district has experienced declining enrollment. Additionally, the Act directs the State Board of Education to facilitate the merger for any district under 900 students that fails to merge by July 1, 2019. Finally, the Act simplifies the tax rate calculation process somewhat by moving from a base amount tied to a New England inflation index and a variable base tax rate to a variable "yield" number and a base tax rate permanently locked at $1.00 per $100 of equalized property value.

Federal Receipts

In fiscal year 2016, the State's special revenue funds received approximately $2.022 billion in total from the federal government on a GAAP basis, a decrease of $65.5 million or 3.1% below fiscal year 2015. These revenues represent reimbursement to the State for expenditures for various health, welfare, educational and highway programs, and distributions of various restricted or categorical grants-in-aid. Fiscal year 2017 federal grant receipts were $1.802 billion, including $1.3 million received from ARRA. The fiscal year 2018 Appropriations Act, as passed, anticipates approximately $2.008 billion in federal receipts, of which $2.3 million is expected to be received under ARRA.

Federal grants normally are restricted as to use depending on the particular program being funded and normally require matching resources by the State. The largest categories of federal grants receipts in fiscal year 2017 were made in the areas of Human Services, $1.257 billion; Transportation, $279.4 million; Education, $127.9 million; Protection to Persons and Property, $58.4 million; and Natural Resources, $34.4 million.

Federal Sequestration. The State has budgeted for the continuing effects of federal sequestration, including the continuation of reductions in direct pay subsidies for the State's outstanding "Build America Bonds" (BABs) (announced to be 6.9% for federal fiscal year 2017), and accordingly does not currently expect such reductions to have a material adverse effect on the current or any future year's budget.

Tobacco Litigation Settlement Fund

Under the Master Settlement Agreement (the "MSA") with tobacco companies, Vermont is entitled to annual payments in perpetuity. The amount of payment due is calculated annually, applying adjustments specified in the MSA, based on factors including that year's volume of tobacco sales and inflation. Pursuant to the MSA, in addition to regular MSA annual payments, beginning in fiscal year 2008, Vermont was also entitled to receive approximately $10-14 million in net Strategic Contribution Payments (as defined in the MSA) per year for ten years. The final Strategic Contribution Payment was received in April 2017. Both the regular MSA payments and the Strategic Contribution Payments are subject to withholding adjustments based on inflation, the effect of any decreases in the sale of tobacco products to the base year among participating manufacturers and certain other adjustments. Various aspects of the MSA remain in litigation or arbitration in venues across the country.

The table below lists Vermont's base payment and Strategic Contribution Payment as set forth in the MSA, and the actual receipts of settlement funds (in millions) for each of the past ten years:

	MSA[1]		Actual		
Fiscal Year	Base Payment	Strategic Payment	Base Payment	Strategic Payment	Total[2]
2007	$28.80	-	$24.96	-	$24.96
2008	29.37	$15.65	25.48	$14.42	39.91
2009	29.37	15.65	28.10	14.78	42.88
2010	29.37	15.65	23.39	12.83	36.22
2011	29.37	15.65	22.17	11.69	33.86
2012	29.37	15.65	22.61	11.91	34.52
2013	29.37	15.65	22.59	11.92	34.51
2014	29.37	15.65	*	*	34.52
2015	29.37	15.65	21.88	11.69	33.57
2016	29.37	15.65	23.00	12.07	35.08
2017	29.37	15.65	22.78	11.94	34.72

[1] Base payment amount and Strategic Contribution Payments as established in the MSA at time of initial settlement; amounts subject to annual adjustments.
[2] Does not take into account Tobacco Litigation Settlement Fund Account performance due to interest income or expense.
* The breakdown between the base payment and the strategic payment amounts for fiscal year 2014 are not available.

In fiscal year 2000, the Vermont Legislature established a special Tobacco Litigation Settlement Fund to be administered by the State Treasurer. Payments under the MSA are deposited into the Tobacco Litigation Settlement Fund. The State of Vermont targets these revenues specifically for tobacco enforcement, prevention and education programs, substance abuse and youth protection programs in AHS. These funds are also used to support Medicaid and other health-related spending but are not used as a supplemental revenue source to fund other core governmental operations. Any unexpended receipts at the end of each fiscal year are earmarked for the separately established Tobacco Investment Trust Fund, a trust established to eventually endow the education and prevention programs. The balance in the Tobacco Investment Trust Fund at the end of fiscal year 2017 was $0.11 million.

RECENT GENERAL FUND, TRANSPORTATION FUND AND EDUCATION FUND OPERATING RESULTS

The following information presented under the above heading is presented on a budgetary (or cash) basis. Reference is also made to the operating statements appearing on pages 54-56 of this Official Statement (under the heading "Financial Summaries") for a tabular presentation of the operating results described below.

Fiscal Year 2014

The State ended fiscal year 2014 with General Fund revenues of $1,316.70 million and—after taking into account an additional $11.64 million of estate tax revenue that is traditionally transferred to the higher education trust fund, but which the Legislature permitted to be retained in the General Fund under the fiscal year 2015 appropriations bill—an operating gain of $13.99 million, The operating gain of $13.99 million was offset by net transfers out to other funds of $5.33 million and transfers to reserves of $8.66 million. Year-over-year consensus (current law) revenues, factoring in the additional estate tax revenues described above, increased by $39.77 million, or 3.09% from fiscal year 2013 revenues of $1,288.58 million. The fiscal year 2014 General Fund consensus revenue forecast, which was the basis for the fiscal year 2014 budget, as passed, was approved by the Emergency Board in January 2013. This estimate was subsequently revised upward by the Emergency Board in July 2013 and January 2014. Compared to target, year-end revenues, factoring in the additional estate tax revenues described above, were 0.32% below the January 2014 revised revenue forecast for fiscal year 2014 of $1,332.60 million. The lower than projected ($4.22 million below target) General Fund revenues were attributable to below target receipts in Personal Income Tax ($22.11 million below target), Sales and Use ($1.66 million below target), Property Transfer Tax ($0.57 million below target) and Other Tax receipts ($3.87 million below target). This underperformance was offset by above target receipts in Corporate Income Tax ($5.65 million above target), Meals & Rooms Tax ($2.64 million above target), Insurance Tax receipts ($0.56 million above target), and Estate Tax receipts ($15.14 million above target). The current law revenue results, plus $59.89 million in revenue enhancements, allowed the State to fund $1.0 million to repay an Area Health Education Center loan, transfer $0.25 million to the Higher Education Trust Fund and maintain $5.00 million in the General Fund Balance Reserve for subsequent years' appropriation subject to Emergency Board action. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $66.16 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2014 with consensus (current law) revenues of $253.38 million and total revenues, including revenue enhancements and appropriations reversions, of $255.22 million and an operating surplus of $2.61 million. Preliminary closeout indicated a year end deficit; the Secretary of Administration closed this deficit by reverting available appropriations at year end. None of the reversions were a result of project cuts or deliberate delays. Year-over-year consensus (current law) revenues increased by 11.04% or $25.19 million from fiscal year 2013 consensus (current law) revenues of $228.19 million. Transportation Fund receipts for fiscal year 2014 were slightly below the consensus revenue target of $255.10 million by 0.67%, primarily due to: Gasoline Tax receipts (1.56% below target); Diesel Tax receipts (0.21% below target); Motor Vehicle Purchase & Use (0.62% below target); Motor Vehicle Fees (0.35% below target); and Other Fees (0.99% above target). The Transportation Fund results, coupled with net transfers into the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $11.55 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2014 with non-property tax revenues of $177.02 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in an $9.61 million operating deficit (after transfers to/from other funds), primarily due to lower than expected revenues. The Education Fund Budget Stabilization Reserve ended fiscal year 2014 fully funded at the statutory maximum of 5% of net prior year appropriations ($30.34 million). In addition to the $30.34 million Education Fund Budget Stabilization Reserve, $9.99 million additional surplus remained unallocated and unreserved as of June 30, 2014.

Fiscal Year 2015

The State ended fiscal year 2015 with General Fund revenues of $1,375.77 million creating an operating gain of $15.22 million, which was offset by net transfers out to other funds of $10.27 million and transfers to reserves of $4.95 million. Year-over-year consensus (current law) revenues increased by $59.07 million, or 4.49% from fiscal year 2014 revenues of $1,316.70 million. The fiscal year 2015 General Fund consensus revenue forecast, which was the basis for the fiscal year 2015 budget, as passed, was approved by the Emergency Board in January 2014. This estimate was subsequently revised downward by the Emergency Board in July 2014 by $28.80 million and again in January 2015 by $10 million. Compared to target, year-end revenues were 1.32% above the January 2015 revised revenue forecast for fiscal year 2015 of $1,357.86 million. The higher than projected ($17.94 million above target) General Fund revenues were attributable primarily to above target receipts in Personal Income Tax ($4.12 million above target) and Corporate Income Tax ($19.30 million above target). This over performance was offset by below target revenues in Sales and Use Tax ($1.0 million below target) and Estate Tax ($4.50 million below target). The current law revenue results, plus the $5.0 million special assessment paid by Entergy during fiscal year 2015 pursuant to the Entergy Settlement Agreement (see "STATE ECONOMY – Utilities"), allowed the State to appropriate an additional $5.0 million to LIHEAP, appropriate an additional $13.0 million to cover Medicaid cost increases and add an additional $1.8 million to the previous $5.0 million in the General Fund Balance Reserve for subsequent years' appropriation, subject to Emergency Board action. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $69.31 million, representing the statutory maximum of 5% of the prior year appropriations level.

The State Transportation Fund ended fiscal year 2015 with consensus (current law) revenues of $261.39 million and an operating surplus of $6.14 million. Year-over-year consensus (current law) revenues increased by 3.16% or $8.01 million from fiscal year 2014 consensus (current law) revenues of $253.38 million. Transportation Fund receipts for fiscal year 2015 were slightly above the consensus revenue target of $260.53 million by 0.33%, primarily due to: Gasoline Tax receipts (1.21% above target); Diesel Tax receipts (5.20% above target); Motor Vehicle Purchase & Use (0.43% below target); Motor Vehicle Fees (0.36% below target); and Other Fees (2.21% below target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $12.55 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2015 with non-property tax revenues of $182.87 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in a $15.47 million operating surplus (after transfers to/from other funds). The Education Fund Budget Stabilization Reserve ended fiscal year 2015 fully funded at the statutory maximum of 5% of net prior year appropriations ($32.05 million). In addition to the $32.05 million Education Fund Budget Stabilization Reserve, $15.13 million additional surplus remained unallocated and unreserved as of June 30, 2015.

Fiscal Year 2016

The State ended fiscal year 2016 with General Fund revenues of $1,412.39 million creating an operating gain of $5.27 million, which gain was offset by net transfers out to other funds of $3.33 million and transfers to reserves of $1.94 million. Year-over-year consensus (current law) revenues increased by $36.62 million, or 2.66% from fiscal year 2015 revenues of $1,375.77 million. The fiscal year 2016 General Fund consensus revenue forecast, which was the basis for the fiscal year 2016 budget, as passed, was approved by the Emergency Board in January 2015. This estimate was subsequently revised upward by the Emergency Board in July 2015 by $40.20 million to incorporate tax changes adopted by the General Assembly and downward in January 2016 by $4.70 million. Compared to target, year-end revenues were 1.13% below the January 2016 revised revenue forecast for fiscal year 2016 of $1,428.60 million. The lower than projected General Fund revenues ($16.21 million below target) were attributable primarily to below target receipts in Personal Income Tax ($13.8 million below target), Sales and Use Tax ($5.0 million below target), Meals and Rooms Tax ($1.4 million below target), Insurance Tax ($0.8 million below target) and Estate Tax ($8.0 million below target). This under performance was partially offset by above target revenues in Corporate Tax ($12.8 million above target). The lower than anticipated current law revenue results were offset by an unappropriated balance in the General Fund ($6.32 million), higher than expected statutory transfers to the General Fund ($5.02 million) and a reversion of unspent General Funds from Medicaid ($4.87 million) attributed to a lower need for state matching funds than budgeted. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $71.25 million, representing the statutory maximum of 5% of the prior year appropriations level. The $6.80 million deposited in the General Fund Balance Reserve (a.k.a. the "rainy day reserve") in prior fiscal years remained reserved in the General Fund.

The State Transportation Fund ended fiscal year 2016 with consensus (current law) revenues of $264.61 million and an operating surplus of $1.12 million. Year-over-year consensus (current law) revenues increased by 1.23% or $3.22 million from fiscal year 2015 consensus (current law) revenues of $261.39 million. Transportation Fund receipts for fiscal year 2016 were slightly below the consensus revenue target of $266.7 million by 0.78%, primarily due to the combination of the following: Gasoline Tax receipts (0.36% below target); Diesel Tax receipts (6.11% below target); Motor Vehicle Purchase & Use (2.11% below target); Motor Vehicle Fees (0.2% above target); and Other Fees (3.49% above target). The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $12.79 million at the statutory maximum of 5% of the prior year appropriations level.

The State Education Fund ended fiscal year 2016 with non-property tax revenues of $199.34 million. Total Education Fund revenue, which includes non-property tax and property tax revenues plus other revenue items, resulted in a $10.39 million operating surplus (after transfers to/from other funds). The Education Fund Budget Stabilization Reserve ended fiscal year 2016 fully funded at the statutory maximum of 5% of net prior year appropriations ($32.61 million). In addition to the $32.61 million Education Fund Budget Stabilization Reserve, $33.92 million additional surplus remained unallocated and unreserved as of June 30, 2016.

Fiscal Year 2017 *

Consensus Forecast. The State, by statute, establishes a consensus revenue forecast each July and the following January. On January 19, 2016, current law General Fund revenues for fiscal year 2017 were projected to be $1,475.5 million. The Emergency Board subsequently met and revised the fiscal year 2017 General Fund revenue forecast upward to $1,480.5 million on July 21, 2016 and then downward to $1,455.9 million on January 19, 2017. The revised January 2017 consensus forecast represented a $45.6 million decrease from the May 2016 General Fund estimate of $1,501.5 million for fiscal year 2017 that was used in preparing the fiscal year 2017 budget. The consensus revenue forecast estimates for fiscal year 2017 were each based on an updated consensus national and State economic outlook at the time, technical re-specifications of the forecasting models for these revenue sources, and an updated analysis of the revenues associated with various revenue-fee changes enacted by the Vermont General Assembly in fiscal year 2017 that were incorporated into the various revenue forecast updates (see "STATE FUNDS AND REVENUES – State General Fund Revenues").

On January 19, 2016, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $271.3 million for fiscal year 2017. The Emergency Board subsequently met and revised the fiscal year 2017 Transportation Fund revenue forecast upward to $277.7 million on July 21, 2016 and then downward to $274.5 million on January 19, 2017. The revised January 2017 consensus forecast represented a $6.7 million decrease from the May 2016 Transportation Fund estimate of $281.2 million for fiscal year 2017 that was used in preparing the fiscal year 2017 budget. This decrease was due to subsequently reduced revenue expectations from revenue-fee changes enacted after the original consensus forecast. The updated consensus forecast was based on updated national and State economic outlook and technical re-specifications of the forecasting models for these revenue sources, and an updated analysis of the expected revenues associated with various revenue-fee changes enacted by the Vermont General Assembly in fiscal year 2017 that were incorporated into the various revenue forecast updates (see "STATE FUNDS AND REVENUES – State General Fund Revenues").

On January 19, 2016, the Emergency Board agreed to an Education Fund consensus revenue forecast of $196.7 million for fiscal year 2017. The Emergency Board subsequently met and revised the fiscal year 2017 Education Fund revenue forecast downward to $193.4 million on July 21, 2016 and then downward again to $193.0 million on January 19, 2017. The revised January 2017 consensus forecast represented a $3.8 million decrease from the May 2016 revenue forecast used in preparing the fiscal year 2017 budget. This revised forecast was based on the latest national and State economic outlook, technical re-specifications of the forecasting models for these revenue sources, and an updated analysis of the expected revenues associated with various revenue-fee changes enacted by the Vermont General Assembly in fiscal year 2017 that were incorporated into the various revenue forecast updates (see "STATE FUNDS AND REVENUES – State General Fund Revenues").

Fiscal Year 2017 Preliminary Results. The following tables present preliminary revenue results for the components of each major fund, as compared to the fiscal year 2017 monthly cash flow targets through June 2017. Results are presented versus the consensus cash flow targets for the January 19, 2017 consensus revenue forecast. As reflected below, aggregate State revenue receipts across all three major funds for fiscal year 2017 was $1,920.20 million, only $3.1 million or 0.17% below the January 2017 forecast of $1,923.3 million. These fiscal year 2017 results corresponded to the lowest margin of error in the last 20 years for the consensus forecast.

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* All fiscal year 2017 information is preliminary, unaudited and subject to change.

Fiscal Year 2017 General Fund Results

	June 2017			Fiscal Year 2017 Preliminary Final		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Personal Income Tax	$74.48	$73.74	(0.99)	$770.30	$756.45	(1.80)
Sales and Use Tax	21.10	21.08	(0.09)	248.37	244.86	(1.41)
Corporate Income Tax	11.25	15.08	34.04	76.30	95.76	25.50
Meals and Rooms Tax	11.79	11.70	(0.76)	165.80	165.35	(0.27)
Property Transfer	1.35	1.38	2.22	12.80	12.55	(1.95)
Other Revenues	12.15	11.12	(8.48)	182.35	181.98	(0.20)
Total	$132.13	$134.10	1.50	$1,455.91	$1,456.95	0.07

[1] Official Revenue Estimates as of January 19, 2017.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.

Fiscal Year 2017 Transportation Fund Results

	June 2017			Fiscal Year 2017 Preliminary Final		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Gasoline Tax[2]	$6.85	$6.95	1.43	$78.20	$78.22	0.02
Diesel Tax[2]	2.46	1.71	(30.60)	19.10	18.00	(5.77)
Purchase and Use Tax	8.65	9.81	13.33	68.87	68.83	(0.06)
Motor Vehicle Fees	10.55	9.88	(6.39)	89.00	86.23	(3.12)
Other Fee Revenues	2.10	2.27	7.97	19.30	19.92	3.21
Total[2]	$30.61	$30.61	(0.03)	$274.47	$271.19	(1.19)

[1] Official Revenue Estimates as of January 19, 2017.
[2] Excludes Transportation Infrastructure Bond revenues.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.

Fiscal Year 2017 Education Fund Results*

	June 2017			Fiscal Year 2017 Preliminary Results		
	Revenue Estimate[1]	Revenue Collections	% Difference	Revenue Estimate[1]	Revenue Collections	% Difference
Sales and Use Tax	$11.36	$11.35	(0.10)	$133.74	$131.85	(1.41)
Lottery	3.78	4.11	8.76	24.60	25.52	3.75
Motor Vehicle Purchase & Use Tax	4.33	4.90	13.33	34.43	34.41	(0.06)
Other Revenues[2]	0.02	0.02	NM	0.25	0.38	NM
Total	$19.50	$20.39	4.59	$193.02	$192.16	(0.45)

* Excluding property taxes, which are collected at the local level with net payments to or from the State.
[1] Official Revenue Estimates as of January 19, 2017.
[2] In prior and current fiscal years, the General Fund has advanced funds for Education Fund expenditures prior to significant revenues being received by the Education Fund. During this time, the Education Fund incurs interest expense payable to the General Fund, which is budgeted as negative revenue.
Note: Totals may not add due to rounding. All figures are unaudited. All dollars are in millions.
NM means Not Meaningful.

General Fund. Fiscal year 2017 preliminary results indicate that the State ended fiscal year 2017 with General Fund revenues of $1,456.95 million, which was $1.0 million above target (corresponding to a difference of just 0.07% versus the January 2017 consensus forecast). The fiscal year 2017 differences from the consensus forecast include significantly less Personal Income Tax and Sales and Use Tax receipts (at a combined $17.4 million below target) along with minor differences elsewhere, off-set by significantly greater Corporate Income Tax receipts ($19.5 million above target) that were largely the result of lower than expected Corporate Income Tax refunds. The

General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $74.10 million, representing the statutory maximum of 5% of the prior year appropriations level, and an additional deposit of $10.38 million to the General Fund Balance Reserve (a.k.a. the "rainy day reserve") to bring the total amount on deposit therein to $17.18 million.

Transportation Fund. Fiscal year 2017 preliminary results indicate that the State ended fiscal year 2017 with Transportation Fund revenues of $271.19 million, which was $3.3 million or 1.2% below expectations. This was primarily the result of a revenue under-performance related to the new Motor Vehicle Fees enacted in fiscal year 2017, and an unexpected under-performance by the Diesel Tax. The Gasoline Tax ended the 2017 fiscal year very close to consensus expectations and the Motor Vehicle Purchase & Use Tax finished fiscal year 2017 within $0.05 million of consensus expectations—or virtually "on-target." The Transportation Fund results, coupled with net transfers out of the Transportation Fund, allowed for a fully funded Transportation Fund Budget Stabilization Fund of $13.26 million at the statutory maximum of 5% of the prior year appropriations level.

Education Fund. Fiscal year 2017 preliminary results indicate that the State ended fiscal year 2017 with Education Fund revenues of $192.16 million, which was $0.9 million or 0.4% below expectations. The under-performance was mainly the result of weaker than expected Sales and Use Tax receipts activity, even though the lottery component significantly out-performed expectations during fiscal year 2017. The Education Fund Budget Stabilization Reserve ended fiscal year 2017 fully funded at the statutory maximum of 5% of net prior year appropriations ($33.46 million). In addition to the $33.46 million Education Fund Budget Stabilization Reserve, $26.49 million additional surplus remained unallocated and unreserved as of June 30, 2017.

Fiscal Year 2018 – Forecast

On January 19, 2017, the Emergency Board agreed to a General Fund consensus revenue forecast of $1,510.2 million for fiscal year 2018. Subsequently, the Legislature passed certain tax changes during the 2017 legislative session, which were estimated by the Legislature to increase revenues during fiscal year 2018 in the amount of $4.1 million in the General Fund and $0.6 million for the Education Fund. Of this $4.7 million expected total increase in revenues, $1.8 million was attributed to enhanced enforcement measures regarding the State's Use Tax portion of the State's Sales and Use Tax. This $1.8 million increase is expected to yield an additional $1.2 million in Use Tax receipts to the General Fund in fiscal year 2018, in addition to the additional $0.6 million in fiscal year 2018 receipts that would be earmarked for the Education Fund. As a result of these subsequent adjustments, the adjusted General Fund consensus revenue forecast for fiscal year 2018 that was the basis for the fiscal year 2018 budget as passed and enacted by the 2017 Vermont General Assembly in Act 85 of 2017, was $1,514.3 million or $4.1 million higher than the $1,510.2 million fiscal year 2018 consensus General Fund forecast adopted by the Emergency Board on January 19, 2017.

The July 2017 consensus forecast decreased fiscal year 2018 General Fund revenues by $28.8 million below the Legislature's "as passed" budgeted level. Of the $28.8 million forecast reduction approved by the Emergency Board, $16.3 million was estimated to be attributable to the pending extraordinary corporate tax refunds that are expected to be paid during fiscal year 2018. The remaining $12.5 million decrease was the result of the updated consensus national and State economic outlook, technical re-specifications of the forecasting models for the General Fund's revenue components, and the inclusion of the economist's consensus estimate of the fiscal year 2018 legislative revenue adjustments adopted as part of the budget approval process.

On January 19, 2017, the Emergency Board agreed to a Transportation Fund consensus revenue forecast of $279.7 million for fiscal year 2018. On July 21, 2017, the Emergency Board revised the fiscal year 2018 consensus revenue forecast to $276.2 million, a downward revision of $3.5 million from the January 2017 estimate for the Transportation Fund that was used in preparing the fiscal year 2018 budget. This decrease was due to subsequently reduced revenue expectations from the revenue-fee changes enacted after the fee increases as passed by the 2016 Vermont General Assembly which yielded less than expected revenue results during fiscal year 2017. As such, the updated July 2017 consensus forecast was based on updated national and State economic outlook, technical re-specifications of the Transportation Fund components' forecasting models, and updated estimates of the fee changes which went into effect beginning in fiscal year 2017 (see "STATE FUNDS AND REVENUES – State General Fund Revenues").

On January 19, 2017, the Emergency Board agreed to an Education Fund consensus revenue forecast of $199.6 million for fiscal year 2018. On July 21, 2017, the Vermont Emergency Board revised the fiscal year 2018 consensus revenue forecast to $198.0 million, a reduction of $1.6 million. The revised July 2017 consensus forecast represented a $2.2 million decrease from the adjusted May 2017 revenue forecast adopted by the 2017 Vermont General Assembly that was used in preparing the fiscal year 2018 budget. This revised forecast was based on the latest national and State economic outlook, technical re-specifications of the forecasting models for these revenue sources, and the expected revenues associated with the adjustments made by the Vermont General Assembly regarding the Education Fund's share of the enhanced Use Tax enforcement actions (of the Sales and Use Tax) to be undertaken by the Vermont Department of Taxes during fiscal year 2018 (see "STATE FUNDS AND REVENUES – State General Fund Revenues").

The State closely monitors collections and other developments with revenues, which are typically reviewed and analyzed on a monthly basis. When warranted, receipts activity developments are tracked more frequently and sometimes on a daily basis. The most recent update of the consensus revenue forecast occurred on July 21, 2017 for fiscal years 2018 and 2019. The State updates revenue forecasts semiannually in January and July of each fiscal year. The next scheduled consensus revenue forecast update will occur in January of calendar year 2018.

Budget Stabilization Reserves

The 1987 the General Assembly initially established the General Fund Budget Stabilization Reserve to "reduce the effects of annual variations in State revenues upon the budget of the State by retaining surpluses in General Fund revenues." Under current law, Budget Stabilization Reserves have been established within the General Fund, the Transportation Fund and the Education Fund.

Act No. 61 of the 1997 Legislative session amended both the General Fund and Transportation Fund budget stabilization laws by stipulating that the respective reserves shall consist of 5% of the prior year budgetary appropriations and further stipulated that in any fiscal year if the General Fund or Transportation Fund is found to have an undesignated fund deficit as determined by generally accepted accounting principles, the applicable Budget Stabilization Reserve shall be used to the extent necessary to offset that deficit. This was done to reflect the State's change to reporting its financial condition in accordance with generally accepted accounting principles.

As of June 30, 2014, the General Fund Budget Stabilization Reserve was $66.16 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $5.00 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2014 was $11.55 million. The Education Budget Stabilization Reserve was $30.34 million as of June 30, 2014 with an additional $9.99 million in Unreserved and Undesignated Fund Balance. For fiscal year 2014, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2014.

As of June 30, 2015, the General Fund Budget Stabilization Reserve was $69.31 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $6.80 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2015 was $12.55 million. The Education Budget Stabilization Reserve was $32.05 million as of June 30, 2015 with an additional $15.13 million in Unreserved and Undesignated Fund Balance. For fiscal year 2015, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2015.

As of June 30, 2016, the General Fund Budget Stabilization Reserve was $71.25 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $6.80 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2016 was $12.79 million. The Education Budget Stabilization Reserve was $32.61 million as of June 30, 2016 with an additional $33.92 million in Unreserved and Undesignated Fund Balance. For fiscal year 2016, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2016.

As of June 30, 2017, the General Fund Budget Stabilization Reserve was $74.10 million and the General Fund Balance Reserve (a.k.a. the "rainy day reserve") was $17.18 million. The Transportation Fund Budget Stabilization Reserve as of June 30, 2017 was $13.26 million. The Education Budget Stabilization Reserve was $33.46 million as of June 30, 2017 with an additional $26.44 million in Unreserved and Undesignated Fund Balance. For fiscal year 2017, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds at their respective statutory maximum levels on June 30, 2017.

General Fund Balance Reserve

Act No. 162 of the 2012 Legislative session established within the General Fund the General Fund Balance Reserve (a.k.a. the "rainy day reserve"), which replaced the Revenue Shortfall Reserve, effective July 1, 2012. After satisfying the funding requirements for the General Fund Budget Stabilization Reserve and after other statutory and/or reserve requirements have been met, any remaining unreserved and undesignated General Fund surplus at the end of the fiscal year shall be reserved in the General Fund Balance Reserve. Without legislative authorization, the balance in the General Fund Balance Reserve shall not exceed 5% of the appropriations from the General Fund for the prior fiscal year. Monies from this reserve shall be available for appropriation by the General Assembly. The $3.88 million deposited in the Revenue Shortfall Reserve as of June 30, 2012 was used for appropriations in fiscal year 2013. At the end of fiscal year 2013, $11.93 million was transferred and reserved in the General Fund Balance Reserve for use in subsequent fiscal years with legislative approval. In fiscal years 2014, $6.93 million was appropriated for expenditure, leaving a balance of $5.0 million at the end of fiscal year 2014 for use in subsequent fiscal years with legislative approval. At the end of fiscal year 2015, $1.8 million was transferred and reserved in the account in addition to the $5.0 million balance in the fund, bringing the total balance to $6.8 million. At the end of fiscal year 2016 the balance in the fund remained at $6.8 million, and at the end of fiscal year 2017, an additional $10.38 million was transferred and reserved in the General Fund Balance Reserve for use in subsequent fiscal years with legislative approval, bringing the fund balance to $17.18 million.

27/53 Reserve

Act No. 172 of the 2016 Legislative session established within the General Fund the 27/53 Reserve. The fund was established to reserve funds to account for two recurring liabilities: (i) to provide funding when there is an additional, or 27th, payroll in a fiscal year, and (ii) to provide funding for an extra week of Medicaid payments, often referred to as the "53rd week." Annually, the Commissioner of Finance and Management is required to report to the Joint Fiscal Committee the projected amount of the outstanding liability and recommend a prorated share to be reserved in the upcoming fiscal year. The Governor is required to include the amount of the prorated share in his or her budget recommendation. At the close of fiscal year 2017, $5.29 million is reserved in the 27/53 Reserve fund.

Human Services Caseload Reserve

Act No. 3 of the 2017 Legislative session revived the Human Services Caseload Reserve within the General Fund. This reserve was revived to manage unanticipated fluctuations in caseload pressures at AHS, primarily within the Medicaid program, and any financial impacts that may result from changes in federal policy. At the end of fiscal year 2017, $10.0 million was reserved in the Human Services Caseload Reserve.

Financial Summaries

Following are summaries, presented on budgetary (or cash) based operating statements, of actual operating results for fiscal years 2014 through 2017, and current law for fiscal year 2018, for the General Fund, the Transportation Fund, and the Education Fund—the primary operating funds of the State.

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General Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2014 – 2018
($ in Millions)

	Actual FY2014	Actual FY2015	Actual FY2016	Actual FY 2017[2]	As Passed FY2018[3]
Sources					
Current Law Revenues	$1,316.70	$1,375.77	$1,412.39	$1,456.92	$1,514.3
Transfer from Higher Education Trust Fund	11.64	-	-	-	-
VEDA Debt Forgiveness	(0.70)	(0.14)	-	-	-
Tax Data Warehouse[4]	-	1.61	1.50	2.15	0.80
Direct Applications, Transfers in & Reversions	52.28	58.01	46.80	88.10	55.88
Other Bills and Tax Changes	-	-	-	-	-
Other Revenue[5]	5.50	5.00	12.80	16.34	-
Additional Property Transfer Tax	2.81	3.52	10.27	10.68	12.63
Prior Year Reserves for Appropriation	11.93	-	-	-	-
Total Sources	**1,400.17**	**1,443.75**	**1,483.77**	**1,574.19**	**1,583.59**
Uses					
Base Appropriations	1,374.03	1,419.76	1,465.62	1,533.36	1,549.32
Budget Adjustment/Rescissions	-	(22.05)	8.70	(15.12)	-
One-time Appropriations	12.14	0.50	-	16.10	12.20
One-time Appropriations P/Y Surplus Reserve	-	-	-	-	-
Contingent One-time Appropriations from Same Year Surplus	-	22.00	-	-	-
Other Bills	0.01	8.34	4.18	5.56	-
Enhanced Federal Financial Participation	-	-	-	-	-
Federal Flexible Funding Replacement	-	-	-	-	-
Total Uses	**1,386.18**	**1428.55**	**1,478.51**	**1,539.90**	**1,561.52**
Operating Surplus (deficit)	**13.99**	**15.22**	**5.27**	**34.29**	**22.07**
Transfers (to) / from Other Funds					
Transportation Fund	-	-	-	-	-
Internal Service Funds	(0.74)	(0.19)	-	(0.20)	-
Education Fund	-	(1.80)	-	-	-
Other Funds	(4.59)	(8.28)	(3.33)	(5.57)	(2.98)
Human Service Caseload Reserve	-	-	-	-	-
Total Transfers (to) / from Other Funds	(5.33)	(10.27)	(3.33)	**(5.77)**	**(2.98)**
Transfers (to) / from Reserves					
Budget Stabilization Reserve	(3.66)	(3.15)	(1.94)	(2.85)	(2.89)
Human Services Caseload Reserve	-	-	-	(10.00)	(12.00)
Reserved in 27/53 Reserve	-	-	-	(5.29)	(3.70)
Reserved in General Fund Balance Reserve	(5.00)	(1.80)	-	(10.38)	(0.50)
Total Reserved in the GF	(8.66)	(4.95)	(1.94)	**(28.52)**	**(19.09)**
Total Transfers (to) / from Surplus	**(13.99)**	**(15.22)**	**(5.27)**	**(34.29)**	**(22.07)**
Unallocated Operating Surplus/ (Deficit)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
GF Reserves (cumulative)					
Budget Stabilization Reserve	66.16	69.31	71.25	74.10	77.00
Human Services Caseload Reserve	-	-	-	10.00	22.00
27/53 Reserve	-	-	-	5.29	8.99
Reserved in General Fund Balance Reserve	5.00	6.80	6.80	17.18	17.68
Total GF Reserve Balances	**$ 71.16**	**$76.11**	**$78.05**	**$106.57**	**$125.67**

[1] Results may not add due to rounding.

[2] Preliminary; unaudited.

[3] Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 19, 2017, as adjusted in May 2017 by the Legislature's estimate of additional revenues due to enhanced revenue collection efforts and other tax changes passed during the 2017 legislative session (see "Fiscal Year 2018 – Forecast" herein), and appropriations effective July 1, 2017. Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).

[4] Represents 20% of the additional tax revenue collected in the respective fiscal year as a result of the implementation of the Tax Data Warehouse, an integrated tax revenue system installed in fiscal year 2015 through which tax payers can process tax payments. The system facilitates tax payer compliance with the law and also allows the Tax Department to identify tax payer non-compliance. The State developed revenue models that help determine the amount of additional revenue being collected as a direct result of the new system. Throughout the course of each fiscal year, 100% of that additional revenue goes into a special fund. At the end of each fiscal year, 20% of the additional revenue is transferred back into the General Fund as revenue and the remaining 80% stays in the special fund and pays for ongoing operating and maintenance costs of the system.

[5] Other revenue incudes: fiscal year 2014 – proceeds from the sale of property in St. Albans; fiscal year 2015 – proceeds from the sale of Vermont Yankee; fiscal year 2016 – reversion of unspent appropriations and carry-forward balances.

Transportation Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2014 – 2018
($ in Millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017[2]	As Passed FY 2018[3]
Sources					
Current Law Revenues	$253.38	$261.39	$264.61	$271.19	$279.70
Other Sources	0.04	0.62	0.03	0.02	-
Direct Applications & Reversions	1.79	-	-	-	-
Prior Year Unallocated Operating Surplus	-	-	1.58	-	-
Total Sources	**255.22**	**262.01**	**266.22**	**271.21**	**279.70**
Uses					
Base Appropriations	247.14	257.02	261.49	269.77	275.23
Budget Adjustments	3.55	(3.15)	1.61	(2.22)	-
Excess Receipts	-	-	-	-	-
Pay Act	1.91	2.00	2.00	1.85	1.85
One-time Appropriations	-	-	-	-	-
Total Uses	**252.60**	**255.87**	**265.10**	**269.40**	**277.08**
Operating Surplus (deficit)	**2.61**	**6.14**	**1.12**	**1.81**	**2.62**
Transfers (to) / from Other Funds:					
General Fund	-	-	-	-	
Downtown Fund	(0.38)	(0.38)	(0.42)	(0.42)	(0.42)
Central Garage Fund	(1.12)	(0.37)	(0.16)	(0.70)	(1.30)
Other Funds	-	(2.50)	0.15	0.14	-
VT Recreational Trail Fund	(0.37)	(0.30)	(0.44)	(0.37)	(0.37)
Total transfers (to) / From Other Funds	**(1.87)**	**(3.55)**	**(0.88)**	**(1.35)**	**(2.09)**
Transfers (to) / from Reserves:					
Bond Insurance Premium Reserve	-	-	-	-	-
Budget Stabilization Reserve	(0.74)	(1.00)	(0.24)	(0.46)	(0.53)
Total Transfers (to) / from Reserves	**(0.74)**	**(1.00)**	**(0.24)**	**(0.46)**	**(0.53)**
Total Transfers (to) / From	**(2.61)**	**(4.56)**	**(1.12)**	**(1.81)**	**(2.62)**
Unallocated Operating Surplus / (deficit)	**0.00**	**1.58**	**0.00**	**0.00**	**0.00**
TF Reserves (cumulative)					
Bond Insurance Premium Reserve	-	-	-	-	-
Budget Stabilization Reserve	11.55	12.55	12.79	13.26	13.79
Total TF Reserve Balances	**$11.55**	**$12.55**	**$12.79**	**$13.26**	**$13.79**

1 Results may not add due to rounding.
2 Preliminary; unaudited.
3 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 19, 2017 and appropriations effective July 1, 2018. Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).

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Education Fund Operating Statement[1]

Budgetary Based
Fiscal Years 2014 – 2018
($ in Millions)

	Actual FY 2014	Actual FY 2015	Actual FY 2016	Actual FY 2017[2]	Current Law FY 2018[3]
Sources					
Net Homestead Education Tax	$403.62	$422.55	$420.79	$416.63	$416.20
Non-Homestead Education Tax	570.96	603.43	630.67	632.77	641.30
General Fund Appropriation to Education Fund	288.92	297.61	303.34	305.90	318.00
Sales and Use Tax	125.05	127.62	129.76	131.85	136.80
Purchase & Use Tax	29.33	32.42	33.38	34.41	35.40
Lottery Transfer	22.57	22.75	26.40	25.52	25.30
Medicaid Transfer	6.38	7.64	9.62	10.60	8.60
Vermont Yankee Education Tax	-	-	-	-	-
Fund Interest	0.07	0.10	0.17	0.38	0.15
2012 Act 162 Sec. D.108	-	-	-	-	-
Solar Energy Property Tax & Other	0.17	0.20	0.21	0.37	0.20
Wind Property Tax	0.79	0.93	0.87	0.82	0.75
Supplemental Property Tax Relief	4.25	-	-	-	-
Net Continuing Appropriations [4]	-	-	-	-	-
Total Sources	**1,452.12**	**1,515.25**	**1,555.23**	**1,559.24**	**1,582.70**
Uses					
Education Payment	1,220.05	1,252.88	1,289.97	1,307.93	1,352.20
Special Education	162.29	166.78	172.45	178.16	180.75
State-Placed Students	15.73	16.38	16.21	15.95	16.70
Transportation	16.73	17.16	17.73	18.06	18.75
Technical Education	13.00	13.13	13.15	13.34	13.61
Small Schools	7.47	7.48	7.60	7.37	7.60
EEE Block Grant	5.99	6.19	6.29	6.14	6.44
Capital Debt	0.12	0.13	0.03	0.02	0.03
Adult Education & Literacy	5.49	6.71	6.50	6.57	9.90
Misc Other	-	1.16	-	-	
Renter Rebate (EF share only: 70%)	6.53	4.47	6.47	6.17	7.35
Reappraisal, Listing Payment, & Accounting Fees	4.32	3.28	4.76	4.51	4.48
Corrections Education	4.01	4.03	3.69	3.31	3.19
Teachers pension - normal cost	-	-	-	-	7.90
VEHI Teachers Healthcare Savings	-	-	-	-	(8.50)
Total Uses	**1,461.72**	**1,499.78**	**1,544.84**	**1,567.53**	**1,620.39**
Operating Surplus/(Deficit)	**(9.61)**	**15.47**	**10.39**	**(8.29)**	**(37.69)**
Transfers (to) / from Reserves					
Budget Stabilization Reserve	(1.08)	(1.71)	(0.57)	(0.84)	8.50
Unreserved/Unallocated	1.36	(8.61)	8.96	1.70	2.70
Total Transfers (to) / from Reserves	**0.28**	**(10.32)**	**8.40**	**0.86**	**11.20**
Unallocated Operating Surplus / Deficit	**(9.33)**	**5.15**	**18.79**	**(7.43)**	**(26.49)**
EF Reserves					
Budget Stabilization Reserve	30.34	32.05	32.61	33.46	24.96
Cumulative Prior Year Appropriation Surplus/(Deficit)	16.28	24.89	15.93	14.23	11.53
Current Year Unallocated/Unreserved	9.99	15.13	33.92	26.49	0.00
Total EF Reserve Balance	**$56.60**	**$72.07**	**$82.46**	**$74.17**	**36.48**

1 Results may not add due to rounding.
2 Preliminary; unaudited.
3 Based on the consensus revenue forecast adopted by the Vermont Emergency Board on January 19, 2017 and appropriations effective July 1, 2018.
4 Appropriation Surplus minus Prior Year Reversions.

Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions

The fiscal year 2018 budget as passed can be found at:

http://www.leg.state.vt.us/jfo/appropriations/fy_2018/ACT085%20As%20Enacted.pdf.

The adjusted General Fund consensus revenue forecast upon which the fiscal year 2018 General Fund budget was based was $1,514.3 million, which was based on the fiscal year 2018 consensus General Fund forecast adopted by the Emergency Board on January 19, 2017, plus a net increase of $4.1 million of additional revenues estimated by the Legislature to be received in fiscal year 2018. The additional revenues are due to enhanced revenue collection efforts and other tax changes passed during the 2017 legislative session. Additionally, $5 million of management savings were incorporated into the budget. The fiscal year 2018 General Fund budget, as passed, provides for total appropriations of $1,561.52 million and projects a fully funded budget stabilization reserve of $77.0 million and an ending balance in the General Fund Balance Reserve of $17.68 million.

In July 2017, the Emergency Board approved a revised General Fund consensus revenue forecast for fiscal year 2018 reflecting a 1.6% ($24.7 million) decrease versus the January 2017 consensus forecast. The enhanced revenue collection was included in the forecast and the net difference between revenue and fiscal year 2018 appropriations is a $28.8 million shortfall. The downward revision was driven primarily by two factors: (i) a one-time event of $16.3 million of Corporate Income Tax refunds that will be paid out in fiscal year 2018, and (ii) a downward revision of the Personal Income Tax revenue by $11.2 million from the January 2017 to the July 2017 forecast. Because the decrease in forecasted revenue was greater than 1% from the estimates utilized for purposes of the fiscal year 2018 General Fund budget, as passed, in accordance with State law (32 V.S.A §704(b)(1)), the Secretary of Administration is required to prepare a rescission plan to submit to the Joint Fiscal Committee for review at its August 17, 2017 meeting.

As part of the fiscal year 2018 appropriations act, the 2017 Vermont General Assembly authorized specified fund transfers to address the expected one-time nature of the extraordinary Corporate Income Tax refunds portion of the revenue forecast reduction ($16.3 million). Accordingly, the Administration's rescission plan relies on $10.38 million that was transferred to the General Fund Balance Reserve at the close of fiscal year 2017, of which $5.19 million was unreserved at the July 21, 2017 Emergency Board meeting pursuant to 32 V.S.A. §308c(b)(1) and the remaining $5.19 million will have to be unreserved through the 2018 budget adjustment process. This will result in an ending balance in the General Fund Balance Reserve for fiscal year 2018 of $7.3 million. The remaining $5.92 million of the expected Corporate Income Tax refunds is expected to be addressed through a $1.0 million, one-time payment the State will receive, with the remaining $4.92 million balance coming from special fund transfers and reversions by the Emergency Board, pursuant to Act 85 of 2017, § D. 105(a) (2) (A). The remaining $12.5 million revenue forecast decrease is being addressed through the rescission process and a plan will be reviewed by the Joint Fiscal Committee on August 17, 2017.

The State continues to monitor the fiscal 2018 General Fund budget, as revised. The Governor and/or Legislature may propose funding alternatives or additional appropriation reductions as part of the fiscal 2018 budget adjustment. The State cannot predict the timing or magnitude of any further changes in General Fund appropriations for fiscal year 2018.

The Transportation Fund consensus revenue forecast upon which the fiscal year 2018 General Fund budget was based was $279.70 million. The fiscal year 2018 Transportation Fund budget, as passed, provides for total appropriations of $277.08 million and projects a fully funded Budget Stabilization Reserve of $13.79 million at the end of fiscal year 2018. In July 2017, the Emergency Board approved a revised consensus revenue forecast for fiscal year 2018 reflecting a 1.3% ($3.5 million) decrease versus the January 2017 consensus forecast. State law dictates that if the decrease in forecasted revenue is greater than 1% from the estimates utilized for the purposes of the 2018 Transportation Fund budget, as passed, in accordance with State law (32 V.S.A §704(b)(1)), the Secretary of Administration shall prepare a rescission plan to submit to the Joint Fiscal Committee. This plan, to be submitted at the August 17, 2017 Joint Fiscal Committee meeting, will reduce Transportation Fund appropriations to the extent necessary to result in a fully funded Budget Stabilization Reserve. The Governor and/or the Legislature may propose funding alternatives as part of the fiscal 2018 budget adjustment. The State cannot predict the timing or magnitude of any further changes in Transportation Fund appropriations for fiscal year 2018.

The fiscal year 2018 Education Fund budget was based on a January 2017 consensus revenue forecast for non-property tax receipts of $199.6 million. The fiscal year 2018 budget, as passed, provides for a current year operating deficit of $37.69 million, which assumes the use of the entire $26.49 million of the cumulative prior years' unallocated/unreserved balance, a $2.7 million reversion of unexpended funds from fiscal year 2017 and $8.5 million of the Budget Stabilization Reserve. This budget also projects a Budget Stabilization Reserve of $24.96 million (or 3.6%), which is within the statutorily required range of 3.5-5.0%. In July 2017, the Emergency Board approved a revised fiscal year 2018 consensus revenue forecast of $198.0 million, a decrease of $1.60 million (or 0.80%).

On August 17, 2017, the Joint Fiscal Committee unanimously approved the rescission plan presented to it by the Secretary of Administration totaling $12.6 million for the General Fund and $3.5 million for the Transportation Fund.

State Dependence on Federal Funds

The State's fiscal year 2018 budget, as passed, for all funding sources is $5,861.1 million, of which $2,030.4 million (34.6%) is assumed to come from federal funds. Of the remaining $3,830.7 million in State funds, $1,485.5 million represents General Fund revenues. The State's major reserve funds are currently fully funded and in each year since the Great Recession the State has shown a commitment to efficiently and effectively deal with any reduction in federal revenues by covering the shortfall with other funds or enacting rescissions. The Secretary of Administration, through the Department of Finance and Management, is actively monitoring the federal budget process in Washington, D.C. The Department of Finance and Management is working with state agencies and departments to understand the impacts of proposed programmatic and funding changes to federally supported activities.

With respect to federal aid relating to healthcare, Vermont's Medicaid and Long-Term Care are not covered by the traditional federal programs; they are covered under a Section 1115 demonstration waiver. The waiver represents a written agreement with the federal Centers for Medicare and Medicaid Services ("CMS"), which runs through December 2021. However, in light of developments in the U.S. Congress relating to the American Health Care Act of 2017 (AHCA), the State cannot predict how federal aid relating to healthcare could impact Vermont's Medicaid program.

The Low Income Home Energy Assistance Program (LIHEAP) is a federal and State funded program. For fiscal year 2017, the program received $18.9 million in federal grants, which covers 100% of the federally eligible expenses incurred by LIHEAP. State funds are used to cover the expenses incurred for the population served by LIHEAP over the 150% federal poverty level (FPL) (the cut off for federal eligibility). For fiscal year 2018, the State has budgeted $17.3 million of federal grant funds, and anticipates enough State funds to cover the expenses incurred by LIHEAP that are not federally eligible. The State believes this to be sufficient funding for the LIHEAP program for fiscal year 2018, but will continue to analyze whether additional funds for structural program changes need to be made in the future. The President's current federal budget proposes to eliminate LIHEAP funding. Accordingly, the State cannot predict at this time whether it will receive the expected federal funding for LIHEAP for fiscal year 2018 described above.

REVENUE ESTIMATES

Act No. 178 of the 1996 Adjourned Session established a mechanism by which the State adopts official revenue estimates for the current and subsequent fiscal years. By July 15th and January 15th of each year, and at such other times as the Emergency Board or the Governor deem proper, the joint fiscal office and the Secretary of Administration are to provide to the Emergency Board (comprised of the Governor and the Chairs of the key taxing and spending committees of both chambers of the Vermont Legislature) their respective revenue estimates for the General, Transportation, Education, and health care funds, and revenues from the gross receipts tax, for the current and next succeeding fiscal year. Federal funds are estimated for the current fiscal year. The Emergency Board, within ten days of receipt of such estimates, is required to determine an official revenue estimate for the current and next succeeding fiscal year

A consensus revenue forecast for fiscal years 2018 and 2019, was completed in July 2017 and was approved by the Emergency Board on July 21, 2017 (the "July Forecast"). These estimates reflected a consensus forecast for the U.S. and Vermont economies, the major individual revenue components of each fund, an overall forecasted level of receipts for the General Fund and Transportation Fund, and several major receipts sources other than property tax receipts in the Education Fund. The July Forecast is a current law forecast that includes all changes to-date as enacted by the Vermont General Assembly (see "STATE FUNDS AND REVENUES – State General Fund Revenues" herein). The July Forecast incorporated the relevant aspects of the State's latest short-term economic forecast developed as part of the consensus forecasting process between the Legislature and the Administration. When available, the consensus forecast utilizes the State economic forecast developed as part of the State's participation in the New England Economic Partnership (NEEP), a regional economic forecasting group. The NEEP forecast uses data supplied by Moody's Analytics—a nationally recognized macroeconomic forecasting firm in West Chester, Pennsylvania. The NEEP organization is a regional economic forecasting group affiliated with leading private sector businesses in New England, major academic and financial institutions in the region, and the Federal Reserve Bank of Boston. The NEEP forecasting group has had only intermittent macroeconomic forecasts for the State over the past three years. Accordingly, the current consensus forecasting cycle, the consensus macroeconomic forecast was developed using a customized, on-line state model for the Vermont economy as subscribed to by the JFO and the Administration. The new online forecasting capability allows for timely, customized state forecasts with modeling capability similar to the former NEEP macroeconomic forecast update capability. The State macroeconomic forecast for the July Forecast was developed cooperatively between the economists of the JFO and the Administration and is a consensus short-term macroeconomic forecast for the variables listed below.

The following discussion describes the level of revenues estimated under the July Forecast that are available for General Fund appropriations in fiscal years 2018 and 2019. Such estimates reflect anticipated increases or decreases in collections in each revenue aggregate, the allocation of such collections between the General Fund and the Education Fund pursuant to Act 68, and certain base preserving actions completed by the Vermont Department of Taxes for the State's major consumption taxes. The July Forecast is a current law revenue forecast as of July 21, 2017.

Personal Income Tax: The July Forecast for the Personal Income Tax for fiscal years 2018 and 2019 reflects a consensus assessment for the continued historically moderate and somewhat uneven economic and labor market expansion over the two-year, consensus forecast period. Personal Income Tax receipts are expected to show moderate improvement through the fiscal year 2018 and fiscal year 2019 period, following the more restrained 1.3% year-over-year growth rate experienced during fiscal year 2017, when receipts appear to have been restrained by the temporary postponement of capital gains realizations during tax year 2016 following the 2016 national elections. The year-over-year growth rates in the Personal Income Tax over the forecast period are below the 5.8% year-over-year growth performance during fiscal year 2016 that was primarily the result of the changes enacted by the 2015 Vermont General Assembly to limit deductions for the Personal Income Tax and to institute a 3% minimum tax on all returns with adjusted gross income above $150,000. The expected continued improvement in Personal Income Tax receipts during fiscal years 2018 and 2019 reflects: (1) the State's continued, but still modest labor market expansion, (2) the continued tightening in State labor markets as evidenced by the State's continued, very low rate of unemployment which is now below the 3.5% level, (3) the expected continued growth in the State's real estate markets now that prices have fully recovered from the housing market correction of the early 2000s, (4) the continued improvement in the national, New England, and Vermont economies, (5) an expected leveling of business profits growth due to an expected increase in hiring activity, and (6) an expected upward spike in Corporate Income Tax refunds due to recent mergers and acquisitions activity among key Vermont companies. The July Forecast includes revenue receipts of $784.0 million for fiscal year 2018, reflecting a 3.6% increase as compared to preliminary fiscal 2017 receipts, and $808.1 million for fiscal year 2019, reflecting a 3.1% annual increase as compared to forecasted fiscal year 2018 receipts. Relative to the January 2017 consensus revenue forecast, the July Forecast represents a 1.4% decline in the consensus revenue forecast for the Personal Income Tax for fiscal year 2018. For fiscal year 2019, the July Forecast represents a 1.3% decline in the consensus revenue forecast for this component relative to the January 2017 consensus revenue forecast.

Sales and Use Tax: The July Forecast for the Sales and Use Tax for fiscal year 2018 and fiscal year 2019 also reflects the consensus assessment of recent collections activity and economic activity trends that impact this important consumption tax source, and the near-term outlook for economic conditions over the fiscal year 2018 and

2019 timeframe. The forecast expects that Vermont resident consumers and many of the State's visitors (tourists) will continue to be somewhat careful with their expenditure and saving activity reflecting the only recently-normalizing pace and profile of national and State economic activity. This period is also expected to include "normal levels of activity" in the State travel and tourism sector, including the continuation of "typical" levels of Canadian visitor activity. In addition, Sales and Use Tax receipts will be aided by the collection of State sales tax on at least part of the e-commerce transactions that occur in the State. The forecast for improving real estate market activity will also help to increase income. The July Forecast for fiscal year 2018 includes a 3.8% year-over-year increase in Sales and Use Tax revenues to $254.1 million versus preliminary fiscal year 2017 receipts, and a 0.8% increase in Sales and Use Tax revenues for fiscal year 2019, as compared to forecasted fiscal year 2018 receipts. Relative to the January 2017 consensus revenue forecast, the July Forecast (inclusive of certain base preserving measures undertaken by the Vermont Department of Taxes) represents a 1.4% decline in the consensus revenue forecast for the Sales and Use Tax for fiscal year 2018. For fiscal year 2019, the July Forecast (inclusive of certain base preserving measures taken by the Vermont Department of Taxes) represents a 3.2% increase in the revenue forecast for this component relative to the January 2017 consensus revenue forecast as the change in the statutory percentage of gross Sales and Use tax receipts increases from 35% to 36% effective July 1, 2018.

Corporate Income Tax: The July Forecast for Corporate Income Tax receipts for fiscal year 2018 and fiscal year 2019 reflects the ongoing year-to-year volatility in this tax source. The consensus forecast also includes the expectation of a continued slowdown in the rate of increase in corporate profits as labor market conditions further tighten and wages increase, which will place upward pressures on the overall compensation costs for businesses in the State. The July Forecast also reflects the potential for pending and significant Corporate Income Tax refund requests related to recent merger and acquisition activity in the State. Such refunds are expected to be disbursed during fiscal year 2018, increasing the likely negative year-to-year change in Corporate Income Tax receipts that would have occurred even without these significant refunds. The July Forecast for fiscal year 2018 calls for a decline in receipts of 15.6% year-over-year to $80.8 million, versus the $95.8 million in preliminary receipts during fiscal year 2017. Corporate receipts in fiscal year 2019 under the July Forecast are then forecasted to increase by 20.8% versus forecasted receipts in fiscal year 2018 to $97.6 million, following the likely disbursement of these extraordinary Corporate Tax refunds in fiscal year 2018. For fiscal year 2019, the July Forecast for Corporate Income Tax revenues totals $97.6 million. Both the fiscal year 2018 and fiscal year 2019 forecasts expect net revenues well below the fiscal year 2015 "high water" mark for Corporate Income Tax receipts of $121.9 million. Relative to the January 2017 consensus revenue forecast, the July Forecast calls for a 7.2% decline in the revenue forecast for the Corporate Income Tax for fiscal year 2018. For fiscal year 2019, the July Forecast represents a 17.0% increase in the revenue forecast for this component relative to the January 2017 consensus revenue forecast.

Meals and Rooms Tax: The July Forecast reflects the expectation of "normal" tourism activity in the State along with continued "normal" levels of Canadian visitor traffic as the U.S., New England, and Vermont economies continue on their respective courses of economic expansion. The July Forecast for fiscal years 2018 and 2019 reflects current law and includes the revenue results expected from the initiation of the collection of tax receipts from Airbnb rental activities by the Vermont Department of Taxes. The July Forecast overall calls for a total of $171.1 million in Meals and Rooms Tax revenues for fiscal year 2018, representing a 3.5% increase on a year-over-year basis from preliminary fiscal year 2017 receipts. The July Forecast for fiscal year 2019 calls for a total of $176.9 million in Meals and Rooms Tax revenues, reflecting an increase of 3.4% versus forecasted receipts for fiscal year 2018. Relative to the January 2017 consensus revenue forecast, the July Forecast (inclusive of a full year of Airbnb receipts resulting from the tax base preservation change) represents a 0.6% decline for the Meals and Rooms Tax for fiscal year 2018. For fiscal year 2019, the July Forecast represents a similar 0.6% decline in the consensus revenue forecast for this component relative to the January 2017 consensus revenue forecast.

Other Taxes and Revenues: This category of taxes, fees, and other revenues is comprised of revenue sources ranging from the State's tax on insurance premiums (including captive insurance companies), the inheritance and estate tax, taxes levied on real estate transfers, taxes on property or revenues levied on telephone companies operating in Vermont, fines assessed by regulatory authorities and the judicial system, fees levied on financial product offerings (such as mutual funds) registered in Vermont, and other similar levies and revenue assessments. These tax levies and sources have historically mirrored changes in economic activity in Vermont, as adjusted for federal and State tax and fee changes. The July Forecast consensus for these revenue sources reflects historical collections patterns, federal and State changes in the inheritance and estate tax, the continuing evolution of changes in State real estate markets and the associated changes in real estate capital gains realizations, and special factors and circumstances that have been identified in consultation with contacts in various State departments and agencies responsible for receipts collection and monitoring for these sources. The July Forecast also reflects the second full year of the doubling in securities registration fees which were effective starting in fiscal year 2017 (beginning on July 1, 2016). The July Forecast also includes on-going and significant sales of services revenue from the leasing of vacant prison beds within the State to the U.S. Marshall Service. The July Forecast also fully reflects the allocation changes to affected tax sources as prescribed by Act 68. As has been the case since July 1, 1998, the January Forecast does not include any revenues from lottery profits or sales.

The following table compares actual General Fund revenue collections for fiscal year 2016 and fiscal year 2017, and the projected General Fund revenue collections for fiscal year 2018 and fiscal year 2019 per the July Forecast.

Sources (Available to the General Fund)	Actual Fiscal 2016	Preliminary Fiscal 2017[1]	Forecast Fiscal 2018[2]	Forecast Fiscal 2019[2]	Percentage Change 2017–2018
Personal Income Taxes	$746,991,069	$756,452,094	$784,000,000	$808,100,000	3.6%
Sales and Use Taxes	240,987,399	244,855,655	254,085,000	256,192,000	3.8
Corporate Income Taxes	116,978,590	95,763,057	80,800,000	97,600,000	(15.6)
Meals and Rooms Taxes	154,150,917	165,345,982	171,100,000	176,900,000	3.5
Other Taxes	120,985,627	133,330,262	134,909,620	136,985,780	1.2
Total Taxes	$1,380,093,601	$1,395,747,050	$1,424,894,620	$1,475,777,780	2.1%
Other Revenues	32,328,320	61,206,157	60,600,000	62,660,000	(1.0)
Total General Fund	$1,412,421,921	$1,456,953,207	$1,485,494,620	$1,538,437,780	2.0%

[1] Fiscal year 2017 revenues include one-time revenues that were received from tax preparer software companies to compensate the State for tax year 2016 errors pertaining to the Personal Income Tax changes enacted by the 2016 Vermont General Assembly.

[2] For fiscal years 2018 and 2019, forecasted totals reflect current law as of July 21, 2017 and include certain base preservation activities of the Vermont Department of Taxes for the State's key consumption taxes in the General Fund (see "STATE FUNDS AND REVENUES – State General Fund Revenues – Sales and Use Tax" and "– Meals and Rooms Tax").

Source: Vermont Department of Finance and Management. Fiscal totals may not add due to rounding.

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The following table reflects budgetary-based General Fund revenue history from fiscal years 2015 through 2017 (with fiscal year 2017 reflecting preliminary actual, unaudited receipt totals) and forecasted revenues for fiscal year 2018 and fiscal year 2019:

General Fund Revenues (Available to the General Fund)
Budgetary Based
($ in Millions)

COMPONENT	Actual 2015[1]	Percent Change	Actual 2016	Percent Change	Preliminary 2017[2]	Percent Change	Forecast 2018[3]	Percent Change	Forecast 2019[3]	Percent Change
TAXES:										
Personal Income	$705.9	5.2%	$747.0	5.8%	$756.5	1.3%	$784.0	3.6%	$808.1	3.1%
Sales and Use	237.0	3.1	241.0	1.7	244.9	1.6	254.1	3.8	256.2	0.8
Corporate	121.9	28.5	117.0	(4.0)	95.8	(18.1)	80.8	(15.6)	97.6	20.8
Meals and Rooms	150.8	5.7	154.2	2.2	165.3	7.3	171.1	3.5	176.9	3.4
Liquor	18.2	2.9	18.3	0.8	19.1	4.4	19.6	2.5	20.2	3.1
Insurance	55.3	(3.1)	56.2	1.7	57.0	1.3	58.0	1.8	58.7	1.2
Total Telephone Tax	7.7	(14.9)	3.2	(59.2)	5.7	80.6	5.0	(12.4)	4.4	(12.0)
Beverage	6.7	4.2	6.7	0.6	6.9	2.9	7.1	2.9	7.3	2.8
Electrical Energy	9.4	(28.2)	0.0	(100.0)	0.0	NM	0.0	NM	0.0	NM
Estate	9.9	(72.2)	12.5	26.5	16.7	33.3	18.4	10.4	19.3	4.9
Property Transfer	10.9	8.7	11.5	6.0	12.6	9.0	12.7	1.6	13.5	6.1
Bank Franchise	10.7	(2.0)	10.7	(0.6)	13.2	24.0	11.8	(10.9)	11.1	(5.9)
Other Taxes	2.0	4.5	1.8	(9.0)	2.2	18.0	2.3	5.8	2.5	8.7
TOTAL TAXES:	$1,346.4	3.5%	$1,380.1	2.5%	$1,395.7	1.1%	$1,424.9	2.1%	$1,475.8	3.6%
OTHER REVENUES:										
Business Licenses	$1.1	0.2%	$1.1	(1.6)%	$1.2	16.8	$1.3	4.4%	$1.3	2.3%
Fees	22.1	7.0	23.0	4.2	48.5	110.8	49.8	2.8	51.0	2.4
Services	1.5	12.5	2.8	86.6	3.0	7.9	3.1	3.0	3.1	1.0
Fines, Forfeits	3.56	(3.1)	3.7	5.5	4.4	21.0	3.5	(20.9)	3.6	2.9
Interest, Premiums	0.2	51.9	0.6	136.1	1.2	108.2	1.8	53.7	2.4	33.3
Other[4]	1.0	(20.4)	1.3	25.9	2.9	128.5	1.1	(62.2)	1.2	9.1
TOTAL OTHER	$29.4	4.7%	$32.3	10.1%	$61.2	89.3%	$60.6	(1.0)%	$62.7	3.4%
TOTAL GENERAL FUND	$1,375.8	3.6%	$1,412.4	2.7%	$1,457.0	3.2%	$1,485.5	2.0%	$1,538.4	3.6%

NM means Not Meaningful.

1 Reflects closure of Vermont Yankee in December 2014, but excludes the $5.0 million special assessment paid by Vermont Yankee in fiscal year 2015 pursuant to the Entergy Settlement Agreement executed in fiscal year 2014 (see "STATE ECONOMY – Utilities").

2 2017 data are preliminary actual, unaudited receipts totals.

3 Based on the July Forecast. Includes all tax and fee changes as implementated in fiscal 2017 and the recent base preservation actions by the Vermont Department of Taxes affecting key consumption taxes (see "STATE FUNDS AND REVENUES – State General Fund Revenues" and "– Meals and Rooms Tax").

4 Includes one-time revenue from tax preparation software vendors to rectify errors pertaining to recent tax changes enacted by the 2016 Vermont General Assembly received in fiscal year 2017.

Source: Vermont Department of Finance and Management. Fiscal year totals may not add due to rounding.

MAJOR GOVERNMENTAL PROGRAMS AND SERVICES

Human Services

The Agency of Human Services (AHS) comprises the following departments and offices:

Office of the Secretary: This Office includes the Health Care Operations, Compliance & Improvement Unit, Fiscal Unit and the Health & Human Services Enterprise, as well as the Office of Health Care Reform. It also provides support for the Division of Rate Setting, the Director of Housing, the Human Services Board, the Vermont Commission of National and Community Service (SerVermont), Refugee Resettlement and the Developmental Disabilities Council.

Department of Disabilities, Aging and Independent Living: This Department assists elderly Vermonters and adults with disabilities to live as independently as possible. It helps adults with disabilities to find and maintain meaningful employment. It licenses inpatient health care facilities and long-term care providers.

Department of Corrections: In partnership with Vermont communities, this Department serves and protects the public by offering a continuum of graduated sanctions for offenders to repair the damage their crimes have caused to victims and communities. The Department operates corrections facilities for incarcerated offenders and Community Correctional Service Centers for offenders convicted of lesser crimes. It also supports 64 Community Reparative Boards that develop sanctions and restorative plans in order for many nonviolent offenders to make amends for their crimes and return value to their communities.

Department of Health: This Department protects and promotes health, and prevents disease and injury through public health programs to maintain and improve the health status of all Vermonters. Programs focus on infectious and chronic disease control and prevention (e.g., injury prevention, and healthy babies programs), surveillance (e.g., disease reporting), and protection (e.g., restaurant inspections).

Department of Mental Health: This Department promotes the health and well-being of Vermonters in coordination with community organizations, providing statewide mental health services for children, families, adults and the elderly. These services include psychiatry, case management, employment, crisis and residential care. In addition to the provision of inpatient services at the Vermont Psychiatric Care Hospital, the Department also works in collaboration with advocacy and consumer organizations to ensure that educational, support and peer-directed services occur statewide.

Department for Children and Families: This Department administers several programs that address the basic needs of Vermonters who are unable to provide for themselves and their dependents. These programs promote the well-being of families and individuals through welfare-to-work services, in-kind benefits and cash assistance. The Department also helps families and individuals lead healthy and independent lives by providing support services and offering educational, information, and prevention services to communities. Social services seek to break the cycle of abuse, neglect and delinquency. Child care services take a lead role in developing quality child care services in Vermont. The Division of Child Support enforces state and federal statutes to ensure that children receive financial support from absent parents and improves financial security for children by obtaining child support obligations and payments.

Department of Vermont Health Access: This Department promotes the well-being of families and individuals through the provision of health care coverage. The Department is responsible for the management of Medicaid, the State Children's Health Insurance Program, State-only funded programs, federal-only funded programs and Vermont Health Connect (VHC).

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The sources of AHS's appropriations for fiscal years 2016, 2017 and 2018 are as follows:

	Fiscal Year 2016 Appropriations	Fiscal Year 2017 Appropriations	As Passed Fiscal Year 2018 Appropriations[1]
General Fund	$664,187,311	$677,895,964	$681,891,842
Federal Funds[2]	1,378,163,700	1,390,532,606	1,400,527,651
Tobacco Settlement	33,452,069	33,550,914	23,308,187
Special Funds[3]	371,925,014	386,141,852	386,357,213
Education Funds[4]	3,886,204	3,109,463	3,189,163
Other Funds	25,000	25,000	25,000
Total	$2,451,639,298	$2,491,255,799	$2,495,299,056

[1] Reflects the FY2018 appropriations bill (Act 85 of 2017). Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).
[2] Federal Funds includes ARRA funds.
[3] Special Funds includes State Health Care Resources Fund and other AHS special funds.
[4] Represents appropriation from Education Fund to cover Department of Corrections High School of Vermont.

Medicaid and State Health Insurance Initiatives

Medicaid

In October 2016, AHS received approval from the federal government to continue Vermont's Global Commitment to Health ("Global Commitment") Medicaid waiver. The approval is for a five-year term effective January 1, 2017 through December 31, 2021.

Since 2005, Vermont has used the Global Commitment waiver to operate its Medicaid program under an innovative model developed to provide essential services for Vermont's most vulnerable populations, including people with disabilities, seniors and those with low incomes, and to ensure affordable health care coverage for children and middle-income Vermonters. These efforts have positioned Vermont as a national leader in state-based health care reform.

The new five-year approval preserves several key benefits to Medicaid participants:

- Medicaid coverage of essential services for Vermont's most vulnerable populations, including people with disabilities, seniors, and those with low incomes;
- Affordable health care coverage for children through the "Dr. Dynasaur" program;
- Premium assistance for low and middle-income Vermonters through the state-based health benefits exchange, Vermont Health Benefit Exchange (a.k.a. Vermont Health Connect (VHC)); and
- Payment and delivery system reform by ensuring Medicaid participation and alignment with the All-Payer Model.

CMS has requested certain changes to better align Section 1115 waivers like Vermont's Global Commitment waiver across the country. Under this extension, Vermont has moved from an aggregate budget neutrality agreement to a per member per month ("PMPM") budget neutrality model. Vermont now joins all other 1115 demonstrations in using the PMPM model so the State is not at risk for caseload growth.

Since 2005, Vermont's Medicaid delivery system has required AHS departments to adhere to federal Medicaid Managed Care rules in exchange for Medicaid Managed Care flexibilities. During Vermont's 2010 negotiations, CMS determined that a unit of state government may not legally be considered a Managed Care Entity and may not be at risk for loss of federal matching funds if Medicaid expenditures were to exceed the annually certified PMPM. In 2016, CMS further expanded on this determination in connection with newly promulgated Medicaid managed care rules. As a result, Vermont is now considered to have a "Public Managed Care-Like Model" and, with a few exceptions, Vermont must follow Medicaid Managed Care regulatory expectations as if it were a "non-risk pre-paid inpatient health plan (PIHP)".

While the renewed waiver made no changes to benefits or eligibility, the application of the federal Medicaid Managed Care regulations for non-risk entities removes certain risk-based managed care flexibilities Vermont had exercised under the previous waiver, including flexibility around paying for institutions for mental diseases in lieu of traditional Medicaid State Plan services. Additionally, Vermont's 2017 waiver renewal places new limits on the State's flexibility to set provider reimbursement, and now requires CMS review and approval of multi-payer models, value-based payments, certain bundled payments and investments for which CMS review was previously not required. Commencing in calendar year 2017, under the provisions of the new federal Medicaid managed care rules, Vermont is subject to a Medical Loss Ratio of 85%, where no more than 15% of Medicaid's costs may be spent on administration. While the new Medical Loss Ratio requirement will present an additional administrative burden for state staff, the State believes it can easily achieve this ratio and, therefore considers the risk of coming close to a 15% administrative cost limitation minimal.

The new five-year approval also includes changes that are part of new Medicaid Managed Care rules. For Vermont, these changes will primarily involve additional reporting and federal oversight of certain elements of Vermont's Global Commitment waiver and the phasing down or identification of additional funding sources for certain investments made by Vermont that are not covered by Medicaid in other states. Vermont negotiated a phase down schedule of investments to ensure adequate time to adjust course and seek alternative funding to mitigate any potential financial and service impacts. Some investments will not start to be phased down until year five of the waiver. The impact of phasing out current investments on unallowable items is estimated to be $64 million (gross) over the next 10 years, out of a total Medicaid budget of $1.6 billion.

The State is also pursuing alternative funding mechanisms in addition to those listed above. In furtherance of its goals for the substance abuse disorder (SUD) continuum of care, AHS is pursuing a Substance Use Disorder Demonstration Waiver, which would be an amendment to the State's Global Commitment waiver and would formally align the State within current federal constructs for this work. In addition, AHS is pursuing the use of Implementation Advance Planning Documents, which could result in a federal match of up to 90% for health information technology projects.

State Health Care Reform

Overview

Federal health care reform enacted in the Patient Protection and Affordable Care Act ("ACA") has impacted Vermont's Medicaid program and Global Commitment waiver by shifting the source of coverage for many Vermonters. In part as a result of the passage of the ACA, in 2011, the Legislature passed Act 48 of 2011 ("Act 48"). Act 48 provided for the creation of (i) the Green Mountain Care Board ("GMCB") to address health care costs, and (ii) a state-based health benefits exchange, Vermont Health Benefit Exchange (a.k.a. Vermont Health Connect or VHC), in compliance with the ACA. The State's reform efforts are currently focused on creating a sustainable health care system through changing the way health care is delivered and moving from fee-for-service payments to value based payments across all payers, including Medicare. Vermont's health care reform efforts support an integrated delivery system across the care continuum.

Green Mountain Care Board

The Green Mountain Care Board (GMCB) was created by the Vermont Legislature in 2011 under Act 48. It is an independent group of five Vermonters who, with their staff, are charged with ensuring that changes in the health system improve quality while stabilizing costs. The Legislature assigned the GMCB three main responsibilities as they pertain healthcare in Vermont: regulation, innovation, and evaluation. The GMCB regulates not only health insurance rates, but also hospital budgets and major hospital expenditures. The Board also innovates, testing new ways to pay for and deliver health care as part of its role in building a new system. Finally, the board evaluates innovation projects, proposals for what benefits should be included in Vermont's new health system, proposals for funding the new system and the effect of the new system on Vermont's economy.

Vermont Health Connect (VHC)

The creation of a state-based health benefits exchange, such as Vermont Health Connect (VHC), is a requirement of the ACA. Act 48 authorized VHC and provides a framework for its goals, functions and governance structure. VHC was established as a division of the Department of Vermont Health Access to build on existing State healthcare infrastructure and avoid duplication of expense. VHC is a virtual marketplace through which Vermonters can access, compare and select health plans; and it is also the vehicle through which Vermonters can access federal tax credits and cost sharing reductions available through the ACA and State premium and cost sharing reductions provided for by the State. VHC began enrolling individuals through its website on October 1, 2013 for coverage beginning January 1, 2014 and worked with health insurers to enroll small businesses directly into VHC insurance plans for coverage beginning in calendar year 2014.

As of June 2017, more than 220,000 Vermonters (more than one-third of the population) were enrolled in VHC health plans (Qualified Health Plans and Medicaid for Children and Adults) either through the marketplace or directly through an insurance carrier. Of the 174,000 who do not receive coverage through a small business employer, 94% qualify for either Medicaid or financial help to lower the cost of coverage. The State has attained the second-lowest uninsured rate in the nation according to the National Center for Health Statistics, and the lowest uninsured rate for children according to the State Health Access Data Assistance Center.

While the State received certain federal funding and grants to help design, develop and implement the VHC, it is now solely responsible for funding the ongoing operations and maintenance of the VHC. The State expects to fund such costs through a combination of State appropriations and Medicaid funds. For fiscal year 2017, total VHC maintenance and operating costs were $52.3 million. Of this, $22.2 million was appropriated by the Legislature from State funds and $30.1 million was funded through federal Medicaid. In the fiscal year 2018 budget, $48.5 million is budgeted for VHC operations and maintenance. Of this amount, $20.7 million was appropriated by the Legislature from State funds and $27.8 million was funded through federal Medicaid.

The State continues to evaluate the total cost of operating and maintaining VHC annually. While VHC is operating at a steady state, potential changes at the federal level lend uncertainty to annual budget projections. Further, the State cannot predict whether the current level of federal funding for VHC will continue to be available in the future, or whether additional federal grant monies will be made available to the State for any portion of those costs. Accordingly, the State's share of the costs of VHC could be substantially higher than what has been budgeted for fiscal year 2018 and beyond. The State continues to evaluate the costs associated with VHC and potential State and federal funding sources to finance those costs.

The State previously covered many individuals through Medicaid, Catamount Health and Medicaid expansion programs under Global Commitment. As of January 1, 2014, these individuals with incomes above 133% of the federal poverty level (FPL) accessed coverage through VHC. The ACA provided federal premium tax credits and cost-sharing subsidies to low and middle-income individuals enrolled in VHC beginning in fiscal year 2014. In addition, to maintain the State's current affordability standards, the State offers additional financial assistance to Vermonters enrolled via VHC with incomes below 300% of the FPL to ensure that premiums are affordable and to Vermonters enrolled via VHC with incomes below 250% FPL to ensure affordable deductibles and out-of-pocket maximums. The cost of this additional financial assistance for fiscal year 2017 was $7.5 million, of which $4.1 million was financed from General Fund revenues. On a going forward basis, the cost of this additional financial assistance is expected to be approximately $7.0 million annually, with approximately $3.8 million to come from General Fund revenues each year. The State continues to evaluate how it will fund the remaining costs of these measures on an ongoing basis, but currently expects to fund such costs through a mix of savings generated from the migration of individuals from the Vermont Health Access Plan and Catamount Health to qualified health plans, additional State appropriations, Medicaid funds and federal grants. The ACA did not have any additional State fiscal impact in fiscal years 2017, and the State is currently evaluating the impact on future fiscal years.

VHC has experienced challenges with eligibility redeterminations, automated verification of information and accurate, automated communication of information. These challenges lead to certain audit findings by the external auditors in connection with a federal single audit of the State for fiscal year 2015. The State entered into a mitigation plan with CMS governing Medicaid redeterminations and verifications. The State is in compliance with that mitigation and is verifying applicants per federal rule.

The State also continues to evaluate approaches to manage the impact of the ACA's excise tax on high cost employer-sponsored health coverage, otherwise known as the "Cadillac Tax," a 40% excise tax assessed on the premium costs of coverage for health plans that exceed a certain annual limit. The tax has been delayed until 2020 and continues to be a subject of debate at the federal level. Final guidance from the Internal Revenue Service is, therefore, still pending. Pursuant to Act 46 of 2015 (for State teachers) and Act 54 of 2015 (for all other public employees), the State created a committee to conduct actuarial and cost-benefit analysis on a full range of potential approaches for addressing the excise tax for public employees. The Public Employees' Health Benefits Report was submitted to the Legislature in late 2015. The study estimated that the State of Vermont tax liability could range from $1.5 million to $5.1 million in 2020 and from $29 million to $30 million by 2027. The study concluded that considerable federal uncertainty remains on issues that will affect the basic calculation of the tax and may change the study's estimates substantially. The State currently cannot predict the ultimate impact if the State should become liable for this tax commencing in January 2020.

Other Federal Health Care Initiatives

The administration and the GMCB are working collaboratively with the federal Center for Medicare and Medicaid Innovation (CMMI) to implement a multi-payer payment model. In October 2016, Vermont signed an All-Payer Model (APM) agreement with CMS to support continued transition to value-based payments. In the model, the federal government allows Vermont to waive certain Medicare payment and quality rules in order to harmonize State-level payment and quality rules across all payers: Medicare, Medicaid and commercial insurance. The Vermont All-Payer Accountable Care Organization (ACO) Model builds on existing multi-payer payment models to better support and promote a more integrated system of care and a sustainable rate of overall health care cost growth in Vermont. Value-based payments that shift risk to health care providers and that are aligned across all payers encourage collaboration across the care continuum and can result in better health outcomes for Vermonters. Vermont Medicaid and OneCare Vermont signed a contract in February to launch the Vermont Next Generation (VMNG) ACO program for calendar year 2017. This program is aligned with the CMS Next Generation ACO program. It has the following features: nearly 30,000 attributed lives, a payment model aligned with Next Generation Payment Model 4, upside and downside risk for the ACO, quality measures aligned with the APM agreement and a portion of payment contingent on quality. The contract can be extended up to four additional years.

The State has received federal financial support for other State-specific health care efforts. In particular, the State received a $45 million State Innovation Model grant from CMMI to assist in implementation of delivery system reform and to test alternative payment and delivery system models. This work helped put the State in a position to implement the all-payer model discussed above. The grant began October 1, 2013 and continued into the first half of calendar year 2017, enabling a robust partnership between government, health care providers, health insurers and other interested parties. Final evaluation results for this program are being collected throughout the summer of 2017, and a final report is expected to be available in early Fall 2017.

The State cannot predict at this time the impact that any federal health care reform plan, if passed, might have on the State and its programs.

Aid to Municipalities

Significant portions of Vermont's budget are used to support the State's cities, towns and school districts. In fiscal year 2017, the General Fund transfer to the Education Fund for support of K-12 schools was $305.9 million, including contingent funding. Additionally, the State contributed $79.0 million to the State Teachers' Retirement System. Total Education Fund appropriated expenditures were $1.57 billion in fiscal year 2017 and $1.62 billion in fiscal year 2018.

Agency of Education administration was paid for with General Funds and federal funds, allowing the Education Fund to be spent entirely on direct support of students and reduction of school tax burdens. Additionally, in fiscal year 2017, $15.3 million in General Funds was distributed to towns to reimburse taxes reduced for land conservation and management programs. In fiscal year 2018, the General Fund transfer to the Education Fund is expected to be $318.0 million and the State expects to contribute $83.8 million to the State Teachers Retirement System.

In fiscal year 2017, $64.9 million was appropriated to town highway programs (excluding appropriations for Federal Highway Administration (FHWA) Emergency Relief to town highways and Federal Emergency Management Agency (FEMA) Public Assistance Grants[1]), funded with $45.0 million in State funds, an additional $0.3 million in State funds appropriated as match for federal FEMA funds, $16.5 million in federal funds (excluding an additional $11.3 million for federal disaster assistance[1]) and $1.2 million in local funds. For fiscal year 2018, $70.2 million was appropriated to town highway programs (excluding appropriations for FHWA Emergency Relief to town highways and FEMA Public Assistance Grants[1]), funded with $45.2 million in State funds, an additional $2.0 million in State funds appropriated as match for federal FEMA funds, $19.2 million in federal funds (excluding an additional $3.2 million for federal disaster assistance[1]), $1.1 million in State clean water funds, $1.4 million in State general obligation bond funds, $0.5 million in inter-departmental transfer funds and $0.8 million in local funds.

	Fiscal Year 2016 Appropriations	Fiscal Year 2017 Appropriations	As Passed Fiscal Year 2018 Appropriations*
State Aid to Local School Districts	$1,290,470,000	$1,311,000,000	$1,352,200,000
Special Education Aid to Local Districts	179,823,434	180,749,796	180,749,796
Vermont State Teachers' Retirement System Contributions	73,102,909	78,959,576	83,809,437
Town Highway Grants	47,085,673	44,960,646	45,232,813
Total	$1,590,482,016	$1,615,670,018	$1,661,992,046

* Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).

Additionally, the State provides local direct tax support to individual taxpayers through the following programs:

	Fiscal Year 2016 Appropriations	Fiscal Year 2017 Appropriations	As Passed Fiscal Year 2018 Appropriations*
Property Tax Assistance	$15,273,000	$16,200,000	$16,600,000
Land Use Reimbursement	$14,647,867	15,321,776	15,283,643
Total	$29,920,867	$31,521,776	$31,883,643

* Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).

Higher Education

The State provides extensive assistance for programs of higher education through a higher education system that includes three major components. These include direct appropriations to the University of Vermont and the Vermont State College system and support through direct financial aid grants to students by the Vermont Student Assistance Corporation, which also receives an annual appropriation.

[1] These appropriations included disaster funding for Tropical Storm Irene and other federally declared disasters, mostly for town highways but also for town public buildings, schools and non-profits. These appropriations are excluded because it is the State's usual practice not to appropriate disaster aid; it was appropriated in fiscal years 2013 through 2017 because of the magnitude of the damage from Tropical Storm Irene in August 2011.

	Fiscal Year 2016 Appropriations	Fiscal Year 2017 Appropriations	As Passed Fiscal Year 2018 Appropriations
University of Vermont	$42,509,093	$42,509,093	$42,509,093
Vermont State Colleges**	25,458,239	26,158,239	29,158,239
Vermont Student Assistance Corporation	19,414,588	19,414,588	19,414,588
Total	$87,381,920	$88,081,920	$91,081,920

* Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).

** Includes Vermont Interactive TV.

The following table shows a breakdown of General Fund appropriations by major function for fiscal year 2014 to fiscal year 2018.

General Fund Appropriations by Major Function

	Fiscal Year 2014[1]	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	As Passed Fiscal Year 2018[2]
General Government	$70,492,878	$72,008,322	$73,638,569	$76,106,286	$80,004,752
Protection to Persons and Property	118,605,706	124,062,040	130,003,661	140,610,696	147,547,660
Human Services	605,832,729	621,076,066	669,703,803	686,962,815	690,747,501
Education	455,008,724	470,638,791	484,659,375	501,192,792	514,674,531
Labor	3,033,200	2,867,475	3,218,732	3,455,020	3,282,129
Natural Resources	27,604,778	27,115,835	26,359,857	27,246,133	28,026,319
Commerce and Community Development	14,646,934	14,825,746	15,512,572	15,851,541	16,043,052
Other – One-time[3]	20,747,466	31,385,165	8,358,315	17,356,042	7,210,803
Debt Service	70,210,177	64,564,485	67,050,703	71,120,080	73,989,703
Total Appropriations	$1,386,182,592	$1,428,543,926	$1,478,505,587	$1,539,901,405	1,561,526,450

1 The fiscal year figures for 2014 include the allocation of a $2.5 million statewide management savings target across major functions.

2 The fiscal year figures for 2018 are presented as appropriated in the 2017 legislative session. Does not reflect the rescission plan approved by the Joint Fiscal Committee on August 17, 2017 (see "Fiscal Year 2018 Budget, Budget Rescissions and Other Reductions" herein).

3 Includes one-time appropriations.

GOVERNMENTAL FUNDS OPERATIONS

The following table sets forth the total revenues, expenditures and changes in total fund balances for all governmental fund types of the State for fiscal year 2012 through fiscal year 2016 presented on a GAAP basis. **Fiscal year ending June 30, 2017 GAAP-based financial results are currently undergoing audit and are not available at the time of this offering.**

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STATE OF VERMONT
All Governmental Fund Types
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances
(modified accrual basis of accounting)
($ in thousands)

	Fiscal Year				
	2012	**2013**	**2014**	**2015**	**2016**
REVENUES:					
Taxes	$ 2,604,185	$ 2,734,774	$ 2,867,311	$ 2,985,073	$ 3,066,310
Fees	116,636	131,497	105,764	124,482	107,629
Sales of services, rents and leases	21,009	25,011	23,031	15,060	17,972
Federal grants	1,887,156	1,865,540	1,938,208	2,087,160	2,021,636
Fines, forfeits and penalties	22,302	31,393	27,776	15,689	18,299
Investment income	2,993	3,794	5,575	1,794	2,705
Licenses	105,104	110,312	112,692	113,039	119,918
Special assessments	69,750	55,486	68,323	70,240	81,789
Other revenues	100,452	131,061	128,168	120,234	117,929
Total revenues	**4,929,587**	**5,088,868**	**5,276,848**	**5,532,771**	**5,554,187**
EXPENDITURES:					
General government	153,865	139,725	126,159	126,158	112,244
Protection to persons and property	318,406	321,811	324,341	343,144	334,029
Human services	2,008,480	2,211,947	2,325,405	2,442,992	2,424,808
Employment and training	17,728	34,000	28,986	30,199	29,559
General education	1,629,885	1,678,816	1,756,437	1,817,577	1,865,637
Natural resources	89,833	87,579	92,146	97,660	102,494
Commerce and community development	37,771	30,936	37,555	35,116	47,362
Transportation	633,113	507,218	520,760	558,226	539,590
Capital outlay	55,652	73,416	119,775	89,885	85,121
Debt service	72,390	71,962	76,801	70,954	73,283
Total expenditures	**5,017,123**	**5,157,410**	**5,408,365**	**5,611,911**	**5,614,127**
Excess of revenues over (under) expenditures	**(87,536)**	**(68,542)**	**(131,517)**	**(79,140)**	**(59,940)**
Other financing sources (uses):					
Bonds and refunding bonds proceeds	132,060	104,005	97,910	109,760	115,580
Transfers from Lottery	22,328	22,927	22,560	22,753	26,415
Net operating transfers in (out)	(2,582)	(639)	(998)	(3,391)	2,568
Other sources (uses)	(66,302)	9,923	(14,546)	(24,398)	(16,167)
Total other financing sources (uses)	**85,504**	**136,216**	**104,926**	**104,724**	**128,396**
Net change in fund balances	**(2,032)**	**67,674**	**(26,591)**	**25,584**	**68,456**
Fund Balance, July 1, restated[1, 2]	869,133	866,623	934,297	907,881	937,364
Fund Balance, June 30	**$ 867,101**	**$ 934,297**	**$ 907,706**	**$ 933,465**	**$ 1,005,820**

[1] The July 1, 2012 fund balance was restated for a change in accounting principles. (See 2013 Comprehensive Annual Financial Report, Note V.)

[2] The July 1, 2014 and July 1, 2015 fund balances were restated for a change related to a government combinations. (See 2015 Comprehensive Annual Financial Report, Note V, and 2016 Comprehensive Annual Financial Report, Note V.)

STATE INDEBTEDNESS

State Indebtedness and Procedure for Authorization

The State has no constitutional or other limit on its power to issue obligations or incur indebtedness besides borrowing only for public purposes. In 1989, the Institutions Committees of the House and Senate recommended the creation of a Capital Debt Affordability Advisory Committee responsible for overseeing long-term capital planning for the State. The Committee was created by the 1990 General Assembly. See "Capital Debt Affordability Advisory Committee" herein. Bonds authorized for a given fiscal year may, at the discretion of the State Treasurer with the approval of the Governor, be issued in the fiscal year, or in the months of May or June preceding such fiscal year, or in subsequent fiscal years.

The State Constitution does not contain provisions requiring submission of the question of incurring indebtedness to a public referendum. The authorization and issuance of State debt, including the purpose, amount and nature thereof, the method and the manner of the incurrence of such debt, the maturity and terms of repayment thereof, and other related matters are statutory. The State's public improvement bonds and the State's transportation and highway bonds are paid respectively from the State's General Fund and Transportation Fund.

Pursuant to various appropriation acts, the State has authorized and issued general obligation bonds for a variety of projects or purposes. Each appropriation act usually specifies projects or purposes and the amount of General Fund or Transportation Fund bonds to be issued, and provides that General Fund or Transportation Fund bonds shall be issued in accordance with the Debts and Claims provisions of the General Obligation Bond Law.

Pursuant to the Refunding Bond Act, the State has authorized the issuance of general obligation bonds to refund or to advance refund all or any portion of one or more issues of outstanding general obligation bonds. Most provisions of the General Obligation Bond Law apply to the issuance of such refunding bonds.

In general, the State has borrowed money by issuing general obligation bonds, commercial paper and notes for the payment of which the full faith and credit of the State are pledged. The State has also borrowed money to finance qualifying transportation capital projects by issuing transportation infrastructure bonds, the payment of which is <u>not</u> secured by the full faith and credit of the State. See "Transportation Infrastructure Bonds" hereinafter. The State also has established certain statewide authorities that have the power to issue revenue bonds and to incur, under certain circumstances, indebtedness for which the State has contingent or limited liability. See "Contingent Liabilities" and "Reserve Fund Commitments" hereinafter.

There are no State constitutional provisions limiting the power of the General Assembly to impose any taxes on property or income in order to pay debt service on general obligation indebtedness. There are also no constitutional provisions limiting the power of the General Assembly to enact liens on or pledges of State revenues or taxes, or the establishment of priorities, for payment of such debt service. There are no express statutory provisions establishing any priorities in favor of holders of general obligation indebtedness over other valid claims against the State.

The General Assembly has established by statute various general requirements for the issuance of general obligation notes or bonds. The State Treasurer, with notification to the Governor, may issue notes or other similar obligations including commercial paper in order to raise funds to pay the expenses of government for which appropriations have been made but for which anticipated revenues have not been received, to defray accumulated State deficits, and in anticipation of bonds. The State Treasurer, with the approval of the Governor, is authorized to issue and sell bonds that mature not later than twenty years after the date of such bonds and, except for zero coupon bonds or capital appreciation bonds, such bonds must be payable in substantially equal or diminishing amounts annually. Under the General Obligation Bond Law, except with respect to refunding bonds, the first of such annual payments is to be made not later than five years after the date of the bonds. All terms of the bonds shall be determined by the State Treasurer with the approval of the Governor as he or she may deem for the best interests of the State.

In 2001, the General Assembly added statutory provisions that require any entity that pays a majority of its operating expense in any fiscal year with money appropriated by the State to notify and obtain the approval of the State Treasurer and Governor prior to incurring any debt including, but not limited to, debt incurred through the issuance of bonds, notes, bank loans, mortgages, lease-purchase contracts and capital leases. In 2002, the General Assembly amended this provision to exclude municipalities from the approval requirement, to establish a borrowing threshold of $1 million before approval is required and to clarify that the amounts deemed appropriated do not include non-discretionary federal funds.

The State Treasurer is directed by the General Obligation Bond Law to pay the interest or investment return on and principal or maturity value of bonds when due "without further order or authority" and to pay the interest on and principal of notes, and expenses of preparing, issuing and marketing of such notes when due "without further order or authority." To the extent not otherwise provided, the amount necessary each year to pay the maturing principal or maturity value of and interest or investment return on bonds is required by statute to be included in and made a part of the annual appropriation bill for the expense of State government, and such principal or maturity value of and interest or investment return on bonds as may come due before appropriations for the payment thereof have been made is to be paid from the General Fund or from the Transportation Fund.

The doctrine of sovereign immunity (the sovereign right of a state not to be sued without its consent) applies to the State. The provisions of the General Obligation Bond Law above recited do not constitute, in the opinion of Bond Counsel, express consent by the State to be sued by a bondholder or a noteholder, although such consent might be so construed by force of necessary implication. The provision referred to above contained in the General Obligation Bond Law appears, however, to impose a legal duty on the State Treasurer to pay principal of and interest on the Bonds and on other bonds and notes when due, either from the General Fund or from the Transportation Fund or from amounts appropriated therefor by the General Assembly.

Under the General Obligation Bond Law, the State Treasurer has an explicit statutory duty to pay principal or maturity value of and interest or investment return on the Bonds and to seek appropriations therefore if amounts in the General Fund or Transportation Fund are insufficient. In the event of failure by the State to make such payment when due, it would appear that a Bondholder may sue the State Treasurer to compel such payment from any moneys available. Under this principle, sovereign immunity would not bar a suit to compel the disbursement of State moneys when a State law imposes a duty to pay.

The State has never defaulted on the punctual payment of principal of or interest on any general obligation indebtedness and has never attempted to prevent or delay such required payments.

Debt Statement

The following table sets forth, as of June 30, 2017, the outstanding general obligation indebtedness of the State, Contingent Liabilities and Reserve Fund Commitments of the State.

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State of Vermont
Debt Statement
As of June 30, 2017
($ in thousands)

General Obligation Bonds[1]:	
General Fund	$570,959
Transportation Fund	6,101
Capital Leases:	
27 Federal Street, St. Albans	$9,845
Self-Supporting Debt:	
Special Obligation Transportation Infrastructure Bonds (TIBs)	$28,340
Reserve Fund Commitments [1]:	
Vermont Municipal Bond Bank	$592,145
Vermont Housing Finance Agency	155,000
VEDA Indebtedness	155,000
Vermont Student Assistance Corporation	50,000
Vermont Telecommunications Authority [2]	40,000
Univ. of Vermont/State Colleges	100,000
Gross Direct and Contingent Debt	**$1,707,390**
Less:	
Self-Supporting Debt	(28,340)
Reserve Fund Commitments	(1,092,145)
Net Tax-Supported Debt [3]	**$586,905**

1 Figures reflect the maximum amount permitted by statute. However, many of the issuers have not issued debt or have not issued the maximum amount of debt permitted by their respective statutes. See "Contingent Liabilities" and "Reserve Fund Commitments" herein for additional information.

2 The General Assembly dissolved the VTA in 2014 (see "STATE ECONOMY – Utilities – Telecommunications" herein); however, this amount remains available to the VTA by statute should it ever be reconstituted.

3 Does not include (i) the Bonds offered hereby, (ii) general obligation bonds that have been refunded and (iii) the present value of other outstanding capitalized leases in the amount of $513,816.

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Selected Debt Statistics[1]

	2013	2014	2015	2016	2017 (unaudited)
Outstanding General Fund, Transportation Fund and Special Fund General Obligation Bonds ($ in thousands) [2]	$546,060	$560,850	$585,200	$627,035	$577,060
Population [3]	627,140	626,984	626,088	624,594	625,281
Debt Per Capita	$871	$895	$935	$1,004	$923
Personal Income ($ in millions by fiscal year) [4]	$28,374	$28,960	$30,042	30,920	31,883
Debt as a Percent of Personal Income	1.9%	1.9%	1.9%	2.0%	1.8%
General Fund, Transportation Fund and Special Fund Debt Service ($ in thousands) [2,5]	$70,353	$74,408	$68,451	$70,778	$74,490
General Fund, Transportation Fund and Special Fund Cash Revenues ($ in thousands) [6]	$1,518,689	$1,583,541	$1,643,980	$1,678,822	$1,729,627
Total Debt Service as a Percent of Total General Fund Transportation Fund and Special Fund Revenues[7]	4.6%	4.7%	4.2%	4.2%	4.3%

Percentage Of Debt To Be Retired (as of June 30, 2017)	Special Fund[7]	General Fund	Transportation Fund	Total General Obligation Debt
5 years	100.0%	38.8%	67.6%	39.1%
10 years	100.0	70.9	91.5	71.1
15 years	100.0	92.9	100.0	93.0
20 years	100.0	100.0	100.0	100.0

Sources: Annual Report of the Commissioner of Finance; U.S. Department of Commerce, Bureau of Economic Analysis; Office of the State Treasurer; and other sources as noted below.

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1 General obligation bond principal debt only, excludes notes, lease/purchase obligations, as well as contingent liabilities and reserve fund commitments, on a budgetary basis. Statistics reflect certain revised and estimated data for 2013 through 2017.
2 Excludes general obligation bonds that have been refunded.
3 Reflects the Legislative Joint Fiscal Office-Administration consensus estimate and forecast of the State's residential population as of the end of the second quarter of the calendar year indicated.
4 Personal income is on a fiscal year basis and is projected for fiscal year 2017 using the July 2017 administration-legislative consensus economic forecast prepared in connection with the Consensus Revenue Forecast as of July 21, 2017. Fiscal year 2013 through and 2016 personal income data are subject to further revision.
5 Includes gross debt service on the State's outstanding Build America Bonds, a portion of which debt service is payable from Federal ARRA receipts.
6 Includes Special Fund Revenues and Federal ARRA receipts dedicated to debt service payments. Fiscal year 2017 revenues are preliminary.
7 See "Debt Service Requirements" herein for a description of Special Fund bonds.

Capital Debt Affordability Advisory Committee

The Capital Debt Affordability Advisory Committee was created by the 1990 Vermont General Assembly to estimate annually the maximum amount of new long-term general obligation debt that prudently may be authorized by the State for the next fiscal year. The Committee's estimate is required by law to be based on a number of considerations, historic and projected, including debt service requirements, debt service as a percent of total General and Transportation Fund revenues, outstanding debt as a percent of personal income, and per capita debt ratios. The Committee is comprised of five members, four of whom are ex-officio State officials and one of whom is appointed by the Governor from the private sector for a two-year term. The Committee was directed by law to issue a report by September 30 of each calendar year. The amount of general obligation debt authorized by the Vermont General Assembly in recent years has never exceeded the Committee's recommended levels.

While historically the Committee's report provided a recommendation for the amount of new long-term general obligation debt that may be authorized by the State for the following fiscal year, starting with fiscal year 2012, the Committee now submits a two-year debt authorization to the General Assembly. The two-year authorization was developed in an effort to more closely align with the State's biennial legislative session, and was driven by near-term considerations such as (i) historically low interest rates and (ii) the need to get certain large-scale capital projects underway, as well as long-term considerations such as the desire for (a) increased coordination between construction and the debt authorization process and (b) the ability to pursue large-scale projects on a multi-year debt authorization basis.

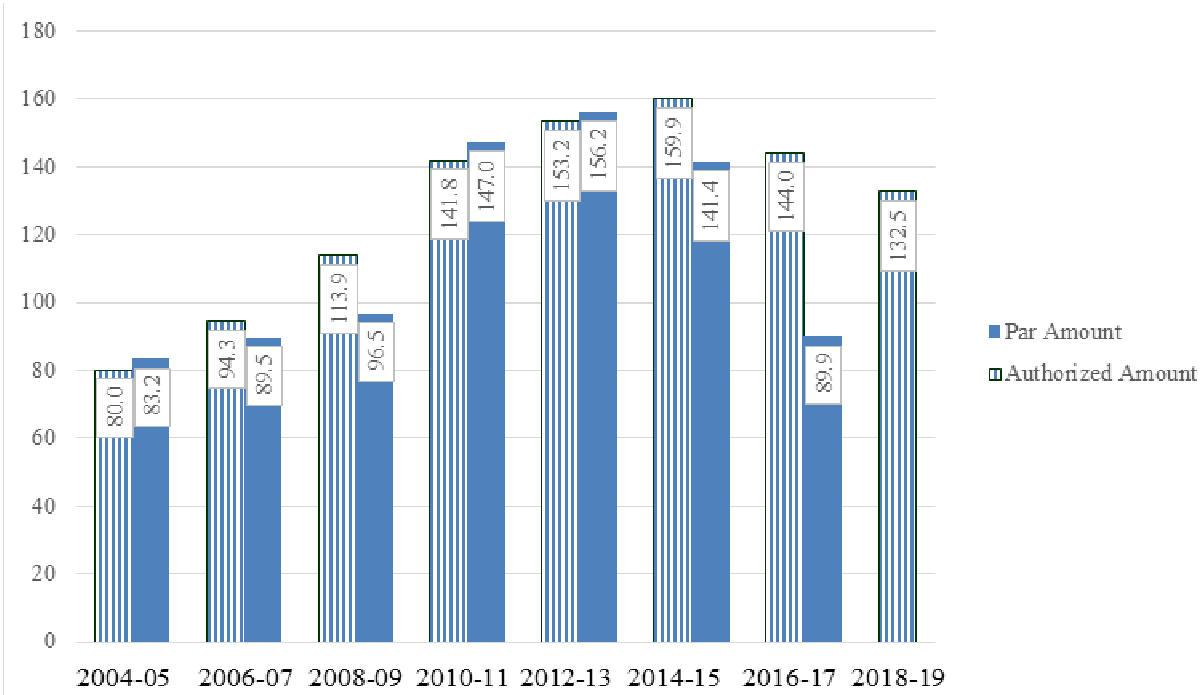
At its September 2014 meeting, the Committee issued an interim report in which it delayed its formal debt recommendation for fiscal years 2016 and 2017 pending the receipt of the November 2014 administration-legislative consensus economic forecast prepared in connection with the evaluation of financing alternatives for Green Mountain Care (the "November 2014 Forecast"). In December 2014, after receipt and consideration of the November 2014 Forecast, the Committee issued its final recommended two-year debt authorization of $144.0 million of general obligation bonds for fiscal years 2016 and 2017. Consistent with the Committee's recommendation, the General Assembly authorized the State to sell $157.2 million of general obligation bonds for the purposes of funding appropriations for both fiscal years 2016 and 2017 (consisting of not more than $84.7 million in fiscal year 2016 and the remaining $72.5 million in fiscal year 2017), which authorized amount reflects (i) the $144.0 million two-year debt authorization of the Committee plus (ii) $11.6 million, representing the bonds that were authorized under the prior biennial capital bill but not issued due to the use of original issue bond premium to fund capital projects and (iii) $1.64 million of transfers and reallocations from prior years. At its September 2015 meeting, the Committee recommended that the State maintain its current authorization for fiscal years 2016 and 2017.

In fiscal year 2016, $89.9 million of new money debt was issued, producing $99.1 million in proceeds available for capital projects within the State. Of this amount, $82.4 million represented the fiscal year 2016 authorized amount and $16.7 million was from prior fiscal year authorizations. The bonds issued in October 2015 were issued at a premium in the amount of $9.4 million, thus increasing the unissued principal that was not needed due to the use of original issue bond premium to $21.0 million. Accordingly, pursuant to the 2016 Capital Bill Adjustment Act (Act 160 of 2016), the General Assembly increased the total authorization for fiscal years 2016 and 2017, to $165.0 million, which authorized amount reflects (i) the $144.0 million two-year debt authorization of the Committee plus (ii) $21.0 million, representing the bonds that were authorized under the prior biennial capital bill but not issued due to the use of original issue bond premium to fund capital projects. Of this amount, $82.6 million remains available for issuance in fiscal year 2017 and subsequent fiscal years.

At its September 2016 meeting, the Committee recommended a two-year debt authorization of $132.46 million of general obligation bonds for fiscal years 2018 and 2019. Consistent with the Committee's recommendation, the General Assembly authorized the two year debt authorization of $132.46 million, plus $14.82 million in transfers and reallocations from prior years, for total authority of $147.28 million for the purposes of funding appropriations for fiscal years 2018 and 2019 (consisting of not more than $73.9 million in fiscal year 2018 and the remaining $73.4 million in fiscal year 2019).

The following chart presents the amounts of general obligation debt that has been authorized and issued by the State since fiscal year 2004 on a biennium basis, as well as the authorized amount for fiscal years 2018 and 2019.

Historical General Obligation Bonds Authorized and Issued by Biennium
(in millions of dollars)



Notes:

- *Annual issuances do not include refunding bonds. Authorized but unissued debt has been carried forward and employed in subsequent years' bond issuances.*
- *Pursuant to Section 34 of Act 104 of 2011, commencing in fiscal year 2013, premium received from the sale of bonds may be applied towards the purposes for which such bonds were authorized. The amount issued reflected above, however, does not include net premium received that was or is expected to be made available for capital purposes.*
- *Does not reflect the issuance of $106.1 million aggregate par amount of the Bonds on September 13, 2017.*

Debt Service Requirements

Set forth below is a schedule of the principal and interest requirements of all general obligation bonds of the State outstanding on June 30, 2017, exclusive of bonds that were refunded in advance of their scheduled maturities. The Special Fund bonds are general obligation bonds issued to refund certain certificates of participation and a lease purchase agreement; there are no Special Fund bonds outstanding as of June 30, 2017. This schedule does not reflect the issuance of the Bonds.

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STATE OF VERMONT
Debt Service on General Obligation Bonds
As of June 30, 2017

GENERAL FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2018	$45,893,008	$21,338,481	$67,231,489	$525,065,900
2019	45,037,180	19,632,373	64,669,553	480,028,720
2020	44,322,180	17,858,566	62,180,746	435,706,540
2021	44,387,180	16,075,572	60,462,752	391,319,360
2022	41,617,180	14,351,302	55,968,482	349,702,180
2023	39,782,180	12,769,647	52,551,827	309,920,000
2024	37,410,000	11,245,758	48,655,758	272,510,000
2025	37,360,000	9,752,211	47,112,211	235,150,000
2026	35,355,000	8,294,138	43,649,138	199,795,000
2027	33,390,000	6,976,938	40,366,938	166,405,000
2028	31,055,000	5,780,694	36,835,694	135,350,000
2029	28,895,000	4,637,831	33,532,831	106,455,000
2030	26,715,000	3,565,913	30,280,913	79,740,000
2031	23,110,000	2,595,525	25,705,525	56,630,000
2032	16,210,000	1,848,263	18,058,263	40,420,000
2033	16,210,000	1,243,338	17,453,338	24,210,000
2034	11,555,000	705,625	12,260,625	12,655,000
2035	8,165,000	302,344	8,467,344	4,490,000
2036	4,490,000	70,156	4,560,156	--

TRANSPORTATION FUND

Fiscal Year	Principal	Interest	Total	End of Fiscal Year Debt Outstanding
2018	$1,451,992	$257,460	$1,709,452	$4,649,100
2019	1,417,820	211,724	1,629,544	3,231,280
2020	417,820	142,411	560,231	2,813,460
2021	417,820	123,098	540,918	2,395,640
2022	417,820	103,786	521,606	1,977,820
2023	417,820	84,315	502,135	1,560,000
2024	260,000	67,405	327,405	1,300,000
2025	260,000	56,745	316,745	1,040,000
2026	260,000	45,825	305,825	780,000
2027	260,000	34,775	294,775	520,000
2028	260,000	23,400	283,400	260,000
2029	260,000	11,700	271,700	--

Short-Term Debt

The Treasurer is authorized to borrow on the credit of the State through the issuance of notes and tax exempt commercial paper (1) to pay expenses of government for which appropriations have been made but for which anticipated revenues have not been received, (2) for the purpose of defraying accumulated State deficits, (3) in anticipation of the receipt of State bond proceeds and (4) for paying costs of issuance of such obligations. In addition, the Treasurer is authorized to enter into credit or liquidity facilities with respect to such obligations.

The State Treasurer may with the approval of the Governor borrow from any fund including restricted funds to defray State Government expenses. Such borrowing may be made twice per year: first from fifteen days preceding to fifteen days following the State's fiscal year end of June 30, and second from December 10 (or earlier if December 10 shall occur on a Friday or Saturday) to January 10 of the subsequent calendar year.

The State has not had any revenue anticipation borrowings outstanding at any date during each of the five most recent fiscal years. Since 1998, the State has met its short term borrowing needs using revenue anticipation notes only, which notes have been paid in full and on time. The State has not had any draws on its line of credit or short-term borrowings since fiscal year 2004. The State has a line of credit available for fiscal year 2018 but does not currently anticipate any draws thereon or any short-term borrowings for the fiscal year.

Interfund Borrowing

Pursuant to Act 179 of 2014, the State Treasurer is authorized to use interfund borrowings of up to a total of $30 million to finance funding shortfalls to the Retired Teachers' Health and Medical Benefits Fund. It is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023. To date, the State Treasurer has borrowed $27,254,600 pursuant to this authorization. For more information regarding the Retired Teachers' Health and Medical Benefits Fund and planned interfund borrowings in the current and future fiscal years, see "PENSION PLANS – Other Post-Employment Benefits – Funding Status and Funding Progress."

Total Authorized Unissued Debt

As of June 30, 2017, the State had $215.1 million of authorized unissued debt, which amount includes $73.4 million that was included in the 2017 biennial capital bill, but that cannot be issued until after June 30, 2018. Subsequent to the issuance of the Bonds, the State expects to have approximately $109.0 million of authorized unissued debt.

Notwithstanding any provision of law, under Section 954 of Title 32 the State Treasurer with the approval of the Secretary of Administration is authorized to transfer unspent proceeds derived from the sale of State bonds or notes previously issued for additional projects authorized by the General Assembly; and the State Treasurer is further authorized to issue bonds or notes of the State to replenish such transferred funds for application to the original capital projects.

Contingent Liabilities

Vermont Economic Development Authority. The Vermont Economic Development Authority ("VEDA" or the "Authority") was established in 1974 as a body corporate and politic and a public instrumentality of the State. The Authority is governed by a 15-member board comprised of the State Treasurer, the Secretary of the Agency of Commerce and Community Development, the Secretary of Agriculture, Food and Markets, the Commissioner of Forests, Parks and Recreation, the Commissioner of Public Service and ten persons appointed by the Governor with the advice and consent of the Senate.

Prior to 2016, the Authority had the power to (i) insure up to $3.5 million of mortgages made by lenders, (ii) reimburse lenders participating in the Vermont Financial Access Program (FAP) for losses incurred on loans that lenders have enrolled in the program and (iii) insure up to $1 million for its own small business and technology loan programs. These powers were repealed in 2016. VEDA assumed all remaining obligations under those programs and the full faith and credit of the State is no longer pledged to support the activities of the Authority.

Reserve Fund Commitments

Vermont Municipal Bond Bank: The Vermont Municipal Bond Bank (the "Bond Bank") was established by the State in 1970 for the purpose of aiding governmental units in the financing of their public improvements by making available a voluntary, alternate method of marketing their obligations in addition to the ordinary competitive bidding channels. By using the Bond Bank, small individual issues of governmental units can be combined into one larger issue that would attract more investors. The Bond Bank is authorized to issue bonds in order to make loans to municipalities in the State through the purchase of either general obligation or revenue bonds of the municipalities. Municipal loan repayments to the Bond Bank are used to make the Bond Bank's bond payments. On April 19, 2016, the State amended provisions with respect to the State Treasurer's ability to intercept State funding to governmental units that are in default on their payment obligations acquired or held by the Bond Bank. Effective July 1, 2016, the amendment provides that upon receipt, the State Treasurer will immediately withhold all further payment to the governmental unit, until the default is cured. During the default period, the State Treasurer will make direct payment of all, or as much as is necessary, of the withheld amounts to the Bond Bank, or at the Bond Bank's direction, to the trustee or paying agent for the bonds, so as to cure, or cure insofar as possible, the default as to the bond or the interest on the bond. The Bond Bank consists of five directors: the State Treasurer, who is a director ex-officio, and four directors appointed by the Governor with the advice and consent of the Senate for terms of two years. The Bond Bank issues bonds under two separate and distinct General Resolutions.

As of June 30, 2017, the Bond Bank has issued 83 series of bonds (including refundings) under its general bond resolution adopted on May 3, 1988 (the "1988 Resolution"), to provide loans to local municipal borrowers. The principal amount of bonds outstanding as of June 30, 2017 under this Resolution was $592,145,000, and the principal amount of loans outstanding to municipal borrowers as of June 30, 2017 was $571,241,775. For bonds issued under the 1988 Resolution, the Bond Bank is required to maintain a reserve fund equal to the lesser of: the maximum annual debt service requirement, 125% of average annual debt service, or 10% of the proceeds of any series of bonds. If the reserve funds have less than the required amount, the chair shall notify the Governor or Governor-elect of the deficiency. The General Assembly is legally authorized but not legally obligated to appropriate money to maintain the reserve funds at their required levels. Since the participating municipalities have always met their obligations on their bonds the State has never needed to appropriate any money to the reserve fund. Based on the long history of the Bond Bank program, the rating agencies credit assessment of the underlying loans of the portfolio, the general obligation pledge of the underlying borrowers for a high percentage of the loan amounts and the State intercept provision for the payment of debt, it is not anticipated that it will be necessary for the State to appropriate money for the reserve fund in the future.

As of June 30, 2017, the Bond Bank has also issued one series of bonds under a new general bond resolution adopted on March 30, 2017 (the "2017 Resolution") for the Vermont State Colleges System ("VSCS") Program. The 2017 Resolution is for VSCS financings only. As of June 30, 2017, the principal amount of bonds outstanding under the 2017 Resolution was $67,660,000 with a loan outstanding amount of $78,217,129. The 2017 Resolution bonds are not supported by a reserve fund. The State Treasurer, the Bond Bank and the Commissioner of the Vermont Department of Finance and Management entered into a State Intercept Memorandum of Agreement to establish procedures with respect to the intercept of State funds described above in regards to the VSCS outstanding bonds.

For additional information about the Bond Bank, see its most recent disclosure document, which can be found on the Electronic Municipal Market Access ("EMMA") system at http://emma.msrb.org.

Vermont Housing Finance Agency: The Vermont Housing Finance Agency ("VHFA") was created by the State in 1974 for the purpose of promoting the expansion of the supply of funds available for mortgages on residential housing and to encourage an adequate supply of safe and decent housing at reasonable costs. The VHFA Board consists of nine commissioners, including ex-officio the Commissioner of the Department of Financial Regulation, the State Treasurer, the Secretary of Commerce and Community Development, the Executive Director of the Vermont Housing and Conservation Board, or their designees, and five commissioners to be appointed by the Governor with the advice and consent of the Senate for terms of four years. The VHFA is empowered to issue notes and bonds to fulfill its corporate purposes. As of June 30, 2017, the VHFA's total outstanding indebtedness was $420,460,819.

The VHFA's act requires the creation of debt service reserve funds for each issue of bonds or notes based on the VHFA's resolutions and in an amount not to exceed the "maximum debt service." Of the debt that the VHFA may issue, up to $155,000,000 of principal outstanding may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve funds for that debt. If the reserve fund requirement for this debt has less than the required amount, under the act, the chairman of the VHFA will notify the Governor or the Governor-elect, the president of the senate and the speaker of the house of the deficiency. As of June 30, 2017, the principal amount of outstanding debt covered by this moral obligation was $41,015,000. As of June 30, 2017, the debt service reserve fund requirement for this debt was $3,059,485, and the value of the debt service reserve fund was $3,166,829. Since the VHFA's creation, it has not been necessary for the State to appropriate money to maintain this debt service reserve fund requirement. For additional information about the VHFA, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

Vermont Economic Development Authority: The Authority has established credit facilities with two banks to fund loans to local and regional development corporations and to businesses under certain programs. The Authority's debt is a combination of commercial paper and variable and fixed-rate notes payable. The commercial paper is supported by a direct-pay letter of credit from one of the banks. The direct-pay letter of credit is collateralized from various repayment sources, including a $15 million collateral reserve fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $80 million. A variable-rate note payable to a second bank in the amount of $55 million is collateralized from various repayment sources, including a $5.5 million collateral reserve fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $50 million. The Authority also has a fixed-rate note payable to the second bank in the amount of $25 million that is collateralized from various repayment sources, including a $1.765 million debt service reserve fund held by a trustee and a debt service reserve fund pledge from the State in an amount of $25 million. The three debt service reserve pledges, totaling $155 million are based on a similar structure utilized by both the Vermont Municipal Bond Bank and the Vermont Housing Finance Agency as discussed above. The amount of commercial paper outstanding under this program at June 30, 2017 was $92.8 million and the variable and fixed-rate note balances outstanding at June 30, 2017 were $55 million and $25 million, respectively. For additional information about the Authority, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

University of Vermont/ State Colleges: Pursuant to Act 200 of 2008, the University of Vermont and State Agricultural College ("UVM") and the Vermont State Colleges ("VSC") are each permitted to create and establish, by resolution, one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes. The debt service reserve fund requirement shall be an amount not to exceed the "maximum debt service" on the bonds or notes to be secured by such debt service reserve fund. Up to $66,000,000 principal amount of UVM debt and up to $34,000,000 principal amount of VSC debt may be backed by the moral obligation of the State, which means that the General Assembly is legally authorized but not legally obligated to appropriate money for any shortfalls in the debt service reserve funds for this debt. For each institution, if the reserve fund requirement for this debt has less than the required amount, the chair of the board of trustees will notify the governor, the president of the senate, and the speaker of the house of the deficiency. No bonds have been issued to date. If bonds are issued, it is not expected that the State will need to appropriate money to the respective reserve funds for these purposes. For additional information about UVM and VSC, see their most recent disclosure documents, which can be found on the EMMA system at http://emma.msrb.org.

VSAC: The Vermont student assistance corporation ("VSAC") was created by the State in 1965 for the purpose of providing opportunities for Vermont residents to attend college or other postsecondary education institutions by awarding grants; guaranteeing, making, financing and servicing loans of funds to students who qualify; and to provide career, educational and financial aid counseling and information services to the same. With the approval of the governor, VSAC is empowered to borrow money and issue notes and bonds to fulfill its corporate purposes. As of June 30, 2017, VSAC's total outstanding indebtedness was $804,659,374, of which $50 million is secured by a debt service reserve fund pledge that is permitted under the legislation enacted into law as 16 V.S.A. § 2867 on March 31, 2009 (the "VSAC Moral Obligation Statute"), described below.

Under the VSAC Moral Obligation Statute, VSAC is permitted to create and establish, by resolution, (i) one or more debt service reserve funds to secure in whole or in part one or more issues of bonds or notes, and/or (ii) one or more pledged equity funds to provide pledged equity or over-collateralization of any trust estate of VSAC to the issuer of a liquidity or credit facility, bond insurance or other credit enhancement obtained by VSAC. In the case of a debt service reserve fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular debt issue, which amount must be established by resolution of the corporation prior to the issuance of such bonds or notes. In the case of a pledged equity fund, funding shall be in an amount determined by the corporation to be reasonably required in light of the facts and circumstances of the particular credit enhancement, which amount must be established by resolution of the corporation prior to entering into any credit enhancement agreement related to such pledged equity fund. Both uses of the VSAC Moral Obligation Statute require the consent of the Treasurer of the State.

The VSAC Moral Obligation Statute establishes a combined debt service reserve fund and equity fund pledge from the State in an amount not to exceed $50 million. The debt service reserve fund pledge is based on a similar structure utilized by the Vermont Municipal Bond Bank, the Vermont Housing Finance Agency and the University of Vermont/Vermont State Colleges, as discussed above, and is limited to $50 million of VSAC bonds, adjusted downward for any amount used for pledged equity funds. The pledged equity fund amount is limited to $50 million of equity commitment, adjusted downward for any bonds issued with the debt service reserve fund pledge described in the preceding sentence. For additional information about VSAC, see its most recent disclosure document, which can be found on the EMMA system at http://emma.msrb.org.

Transportation Infrastructure Bonds

In 2009, the General Assembly enacted 19 V.S.A. §11f (the "TIB Act"), which provided for the establishment of the Transportation Infrastructure Bond Fund (the "TIB Fund"). Under the TIB Act, the State Treasurer is authorized to issue transportation infrastructure bonds ("TIBs") from time to time in amounts authorized by the General Assembly in its annual transportation bill. The TIB Act provides that the TIB Fund shall be credited with certain funds raised from motor fuel (gas and diesel) assessments levied on distributors. Principal and interest on the TIBs and associated costs will be paid from the TIB Fund (i.e., not supported from current transportation fund or general fund revenues). However, the State is permitted to add its general obligation to secure the repayment of the TIBs if necessary to market the TIBs in the best interest of the State. After payment of the related bond costs, any remaining money in the TIB Fund may be used to fund qualifying transportation capital projects. As of June 30, 2017, the State's outstanding TIBs are as follows:

Date of Issuance	Series	Original Par Amount	Outstanding Par Amount as of June 30, 2017
August 3, 2010	2010A	$14,400,000	$10,205,000
August 9, 2012	2012A	10,820,000	8,555,000
August 8, 2013	2013A	11,165,000	9,580,000

The TIBs are not general obligations of the State and are not secured by the full faith and credit of the State.

PENSION PLANS

Defined Benefit Retirement Plans

Overview

The State maintains three defined benefit pension plans, the Vermont State Teachers' Retirement System ("STRS"), the Vermont State Employees' Retirement System ("VSRS"), which includes general State employees and State Police, and the Vermont Municipal Employees' Retirement System ("VMERS"). Each retirement system is serviced by an independent actuarial firm. Approximate membership of each system as of June 30, 2016 was as follows:

	Active	Inactive	Terminated, Vested	Retired
STRS	9,919	2,454	747	8,763
VSRS	8,436	1,012	728	6,542
VMERS	6,966	2,099	811	2,734

The State appropriates funding for pension costs associated with its two major retirement plans, VSRS and STRS, covering substantially all State employees and teachers, respectively. The State's contributions to each system are based on percentage rates of each member's annual earnable compensation. These rates include a "normal contribution" rate and an "accrued liability contribution" rate and are fixed on the basis of the liabilities of the systems as shown by actuarial valuations. Both the VSRS and STRS unfunded liabilities are currently amortized over a 30-year period beginning in 2008 and ending in 2038. See "Actuarial Valuation" below.

The STRS appropriation is made from general fund appropriations to the pension fund. In the case of VSRS, the various State cost centers/funds are assessed an employer contribution based on the payroll associated with the cost center/fund. VSRS funding requirements are then calculated as a percentage of the State payroll and are remitted to the pension fund as an employer contribution with each bi-weekly payroll. As actual payroll for the year may vary from estimated totals and from pay period to pay period, a reconciliation is completed by the State each year, and an adjustment to the subsequent appropriation calculation is made to assure that all funds required to meet the projected ADEC (as defined below) are remitted to the pension fund.

The State's other statutory pension plan, VMERS, was established effective July 1, 1975. Effective July 1, 1987, and thereafter, all payments to the VMERS' pension accumulation fund are supported entirely by employer (municipal) and employee contributions; the State is not required to make any contributions to VMERS. Employers make periodic payments that are reconciled quarterly into the pension accumulation funds, which payments are percentages of annual earnable compensation of each membership group and consist of a "normal" and "unfunded accrued liability" portion. The percentage rates of such contributions are fixed on the basis of the liabilities of the system pursuant to actuarial valuations.

The following tables set forth the total market value of net assets, amount of employee and employer contributions, net investment income or loss, and disbursements including benefit payments, refunds on death and refunds plus interest on withdrawals, for the defined benefit plans for STRS, VSRS and VMERS for fiscal year 2006 through fiscal year 2016 (the most recent data available), inclusive.

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Vermont State Teachers' Retirement System (STRS) Defined Benefit Plan[1]

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income/(Loss)[2]	Disbursements
2016	$1,620,899,749	$35,408,763	$73,225,064	$19,877,270	$164,915,262
2015	1,653,116,441	34,863,531	72,908,805	(7,566,697)	153,284,690
2014	1,705,364,605	32,558,584	71,869,736	212,338,195	166,962,651
2013	1,554,351,563	32,343,368	63,646,240	120,403,031	155,394,010
2012	1,491,619,901	31,827,995	51,731,875	24,726,665	141,938,812
2011	1,520,766,932	32,062,253	47,134,361	261,886,311	128,907,920
2010	1,305,250,050	25,315,397	40,545,321	214,806,420	116,217,934
2009	1,145,066,114	20,937,686	35,960,934	(307,382,558)	109,524,146
2008	1,501,320,179	22,918,798	39,549,097	(110,019,634)	99,929,342
2007	1,647,057,577	22,533,479	37,341,609	244,425,689	90,158,642
2006	1,430,822,223	21,884,140	24,446,282	130,835,585	81,056,808

Vermont State Employees' Retirement System (VSRS) Defined Benefit Plan[1]

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income/(Loss)[2]	Disbursements
2016[3]	$1,609,650,152	$34,055,217	$89,869,751	$17,962,425	$153,438,223
2015[3]	1,624,861,239	33,296,248	84,909,380	(8,484,694)	141,860,471
2014[3]	1,657,245,868	31,745,692	80,755,129	203,721,748	128,136,805
2013[3]	1,470,492,327	29,847,352	75,259,094	110,715,697	124,456,335
2012[3]	1,378,489,496	27,708,009	66,167,903	23,604,774	119,974,280
2011[3]	1,380,606,734	22,269,041	62,535,626	238,386,383	113,087,703
2010[3]	1,169,844,902	22,840,354	55,517,534	$182,593,261	101,240,378
2009[3]	1,014,697,982	22,148,754	45,027,364	(242,976,382)	91,038,887
2008	1,282,493,872	18,614,102	39,179,823	(84,156,254)	83,731,903
2007	1,392,327,467	15,456,691	39,297,002	192,625,279	74,873,698
2006	1,219,616,872	14,561,467	36,866,451	115,146,415	68,376,126

1 Source: Annual Actuarial Valuation Report and Comprehensive Annual Financial Reports.

2 Net Investment Income is presented in accordance with GASB Statement 25.

3 Historically, health care contributions and pay-as-you-go payments for VSRS and STRS were included in the pension funds, subordinate to pension benefits, in a sub-trust. Commencing in 2009, such health care contributions and payments for VSRS were paid out of a separate trust. Such contributions and payments are included in the above total for comparative purposes. Net Investment Income does not include investment income associated with the separate trust. Interest earnings on the separate trust, which includes the health care contributions and pay-as-you-go payments previously described, as well as OPEB prefunded amounts, were $86,454 in fiscal year 2009, $480,064 in fiscal year 2010, $802,020 in fiscal year 2011, $375,423 in fiscal year 2012, $667,196 in fiscal year 2013, $1,485,472 in fiscal year 2014, $331,945 in fiscal year 2015 and 494,668 in fiscal year 2016.

Vermont Municipal Employees' Retirement System (VMERS) Defined Benefit Plan[1]

Year Ended June 30	Market Value of Net Assets	Employee Contributions	Employer Contributions	Net Investment Income/(Loss)[2]	Disbursements
2016	$547,015,113	$15,226,948	$15,235,742	$6,776,933	$26,479,686
2015	535,903,742	13,587,975	14,136,067	(2,358,518)	24,371,268
2014	534,525,477	13,233,728	12,805,737	64,346,116	21,189,402
2013	463,186,430	15,060,665	12,014,186	34,838,507	19,437,379
2012	420,540,070	11,337,926	11,532,230	7,671,464	17,021,297
2011	406,901,556	11,702,728	11,117,363	66,957,781	15,031,192
2010	331,888,451	10,711,600	10,592,919	47,598,096	13,390,141
2009	276,172,429	9,557,973	8,008,862	(56,937,342)	12,839,085
2008	327,060,102	9,906,709	9,250,816	(19,472,654)	11,338,558
2007	347,810,364	9,769,882	8,535,396	46,633,781	10,633,672
2006	293,298,875	8,744,718	7,926,436	27,697,371	9,765,131

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1 Source: Annual Actuarial Valuation Reports and Comprehensive Annual Financial Reports.
2 Net Investment Income is presented in accordance with GASB 25.

Actuarial Valuation

Overview. Under State law, an approved actuary is required to make a valuation of each system's assets and liabilities annually. These reports (the "Funding Valuation Reports"), which are delivered in draft form and approved by the respective system boards in late October of each year and posted with any board-approved revisions in early November, contain an actuarial valuation of the system as of the end of the most recent fiscal year, as well as recommendations for the ADEC (formerly ARC; each term as defined below) for the current fiscal year and the next two fiscal years. The Funding Valuation Reports also include, for each system, a description of the actuarial assumptions and methods used, a brief summary of the principal plan provisions, a summary of member data, the current amortization schedule for the unfunded actuarial accrued liability ("UAAL") and projected benefit payouts and contributions over the next ten years. The Funding Valuation Reports for the fiscal year ending June 30, 2016 (the "2016 Funding Valuation Reports"), which are the most recently completed and board approved final actuarial reports, are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/PDF/2016/VSERS%202016%20Valuation%20Report%20Final.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTERS-reports/VSTRS%202016%20Valuation%20Report%20Final.pdf

An actuarial valuation for funding purposes calculates the actuarial accrued liability in each of the systems, which represents the present value of benefits the system will pay to its retired members and active members upon retirement based on certain demographic and economic assumptions. The actuarial valuation compares the actuarial accrued liability with the actuarial value of assets and any excess of that liability over the assets forms the UAAL of the system. The actuarial valuation will express the percentage that a system is funded through a "funded ratio," which represents the actuarial value of assets of the system divided by the actuarial accrued liability of such system. The actuarial valuation will also state an actuarially determined employer contribution ("ADEC") (formerly referred to as an actuarially recommended contribution ("ARC")), which is a recommended amount that the State and other sponsoring employers contribute to the applicable system. The ARC/ADEC consists of two components: (1) normal cost, which represents the portion of the present value of retirement benefits that are allocable to active members' current year service, and (2) an amortized portion of the UAAL. Both the VSRS and STRS system unfunded liabilities are currently amortized over an original 30-year period, beginning in 2008 and ending in 2038.

The Funding Valuation Reports are prepared according to statute for the purpose of funding the respective systems. Recently, the Governmental Accounting Standards Board ("GASB") implemented new standards for accounting for pensions. For more information, see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" below. These new standards are for accounting purposes only and do not affect the State's funding decisions.

Description of Certain Actuarial Assumptions. To calculate the actuarial value of assets and actuarial accrued liability of each system, the actuarial valuations use several actuarial assumptions. Some examples of these assumptions include an expected rate of return on assets, age of retirement of active members, future salary increases for current employees and assumed mortality rates for retirees and beneficiaries. If the actual experience of a system differs from these assumptions, the UAAL of such system may increase or decrease to the extent of any such variance. With respect to expected rate of return of assets, for example, the actual rate of return for each system depends on the performance of its investment portfolio. The value of the securities in the investment portfolio changes from one fiscal year to the next, which, in turn, causes increases or decreases in the system's UAAL. This could have a resulting impact on the ARC/ADEC, which may increase the amount of the State's contribution to the system.

The 2015 Funding Valuation Reports changed the assumed rate of return on assets to a flat rate of 7.95% for each of the plans, whereas a select-and-ultimate rate was previously used.

For fiscal year 2016, the actuarial rate of return of the assets, which utilized smoothing (defined below), was 6.73% for VSRS and 6.79% for VSTRS (the market rates of returns were 1.0% and 1.3%, respectively). For fiscal year 2017, the estimated gross market rate of return for the VPIC composite was 10.9%. In addition to the above-described assumptions, the actuarial valuations of each system use several actuarial methods to calculate the actuarial value of assets and actuarial accrued liability of the systems. The actuarial method for both the STRS and the VSRS plans are set by State statute. Through fiscal year 2005 the method used was the entry age normal ("EAN") with frozen initial liability ("FIL"). Under this method, the unfunded liability was frozen at 1988 levels. Any impact of underfunding subsequent to the "freezing" of the liability in 1988 fell to normal cost instead of being added to the unfunded liability as in more conventional funding methods. The Legislature enacted a statutory change revising the method to EAN without FIL for the actuarial valuation for the year ending June 30, 2006, which effectively restated the starting balance. As such, the shift to the EAN method has had the effect of increasing the actuarially unfunded liability and reducing the normal contribution. The State believes that the EAN method is a more accurate indicator of actuarial funding progress and it is now, in fact, the predominant method used by public retirement systems throughout the United States.

An additional actuarial method used in arriving at the actuarial valuation is so-called "smoothing," whereby the difference between the market value of assets and the actuarial value of assets is smoothed over the previous five years to offset the effects of volatility of market values in any single year. In addition, the State uses a 20% "corridor" in order to prevent the smoothed value to stray too far from market. The use of the 20% corridor means that very large gains and losses (i.e., ones that would produce a smoothed value that is more than 20% higher or lower than the actual market value) will not be presumed to be completely transitory and will be reflected immediately in funding.

The following chart presents, based on the Funding Valuation Reports for each system, the actuarial value of assets, the market value of net assets, the actuarial value of assets as a percent of market value of assets, the investment rate of return based on the actuarial value of assets and the investment rate of return based on market value assets over the past ten years.

	Fiscal Year	Actuarial Value (AV) of Assets	Market Value (MV) of Net Assets	AV as % of MV	Investment Rate of Return (AV)	Investment Rate of Return (MV)[1]
STRS	2016	$1,716,296,235	$1,620,899,749	105.9%	6.8%	1.3%
	2015	1,662,345,707	1,653,116,441	100.6%	6.5	(0.3)
	2014	1,610,285,523	1,705,364,605	94.4	8.3	14.2
	2013	1,552,924,370	1,554,351,563	99.9	6.7	8.4
	2012	1,517,410,471	1,491,619,901	101.7	6.3	2.2
	2011	1,486,698,448	1,520,766,932	97.8	9.3	20.5
	2010	1,410,368,434	1,305,250,049	108.1	6.8	18.0
	2009	1,374,079,337	1,145,066,114	120.0	(11.2)	(19.8)
	2008	1,605,461,728	1,501,320,179	106.9	6.9	(6.6)
	2007	1,541,859,000	1,647,057,577	93.6	10.5	17.4
VSRS	2016	$1,707,267,941	$1,609,650,152	106.1%	6.7%	1.0%
	2015	1,636,267,663	1,624,861,239	100.7	6.5	(0.6)
	2014	1,566,075,540	1,657,245,868	94.5	8.3	14.5
	2013	1,469,169,902	1,470,492,327	99.9	6.7	8.6
	2012	1,400,779,062	1,378,489,496	101.6	6.3	2.4
	2011	1,348,762,790	1,380,606,734	97.7	9.3	21.2
	2010	1,265,404,195	1,169,844,902	108.2	6.7	17.9
	2009	1,217,637,578	1,014,697,982	120.0	(9.6)	(18.7)
	2008	1,377,101,471	1,282,493,872	107.4	6.9	(5.9)
	2007	1,318,686,844	1,392,327,467	94.7	9.9	16.5

[1] Investment returns based on market value of net assets are gross of fees.
Source: Funding Valuation Reports.

For VSRS, the market value of pooled investments (not including ancillary bank accounts) as of June 30, 2017 (unaudited) was approximately $1,740.0 million (compared to $1,601.3 million as of June 30, 2016) and the net rate of return for fiscal year 2017 was approximately 10.5% (unaudited). For STRS, the market value of pooled investments (not including ancillary bank accounts) as of June 30, 2017 (unaudited) was $1,726.1 million (compared to $1,610.3 million as of June 30, 2016) and the net rate of return for fiscal year 2017 was approximately 10.4% (unaudited). (The market value of net assets to the reported on the State's audited financial statements will differ from the market value of pooled investments referenced above due to adjustments that will be made during the audit process.) Because the State continues to use asset smoothing for purposes of funding the systems, a portion of the upward pressure on the UAAL in fiscal year 2016 due to the lower than expected rates of return on assets was mitigated in part by the fact that the actuarial values of assets as a percent of market values of net assets in fiscal year 2016 were 106.1% (for VSRS) and 105.9% (for STRS).

Recent and Planned Actuarial Assumption Changes. Recently, there has been significant discussion on the national level relative to the appropriate interest rate assumptions used by public pension plans. The Vermont retirement systems, in concert with their investment and actuarial consultants, believe that the interest rate assumptions should be viewed as part of an interrelated set of actuarial assumptions and thus evaluated in a comprehensive, formal experience study rather than in isolation. State law provides that at least once in each five-year period, the State's actuary is to make an investigation into the mortality, service and comprehensive experience of the members and beneficiaries of each system and make recommendations for certain modifications of the actuarial assumptions, as needed. The most recent experience studies for the VSRS and STRS systems were completed by Buck Consultants for the period covering July 1, 2010 through June 30, 2014. These reports are incorporated herein by reference and available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/Vermont%20State%20Employees%20Exp%20Study%202010%20-%202014.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTERS-reports/Vermont%20Teachers%20Exp%20Study%202010%20-%202014%2012082016.pdf

As a result of the recommendations set forth in each of these experience studies, changes in the actuarial assumptions were made commencing with the funding valuation reports for the period ending June 30, 2015. The major actuarial assumptions were updated based on the results of the 2014 experience studies, including updates to active service demographic assumptions, compensation increase assumptions, post-retirement mortality rates, interest rate and cost-of-living adjustment rates.

Commencing with the fiscal year ending June 30, 2015, for both the Funding Valuation Reports and GASB 67 Reports (see "PENSION PLANS – Recent Changes to Pension Obligation Reporting"), the boards of VSRS, STRS and VMERS adopted a single expected rate of return on assets of 7.95% and discontinued the "select-and-ultimate" method of developing interest rate assumptions. This assumed rate of return was developed by the State's actuary, Buck Consultants, using capital market modeling of long-term expected returns for asset classes, and was reviewed and approved by the system boards and VPIC, as well as by NEPC LLC, the VPIC's independent investment consultant. At their respective July 2017 Board meetings, the VPIC and the Retirement Boards each lowered the assumed rate of return to 7.50% and associated inflation factor to 2.50% for fiscal year 2017. This action will increase the applicable UAAL and future ARC/ADEC requirements.

Pension and Health Benefits

Overview. Substantially all State employees and teachers participate in one of the two State systems, with five years of employment required before retirement benefits become vested. Retirement benefits are calculated based on a percentage of average final compensation ("AFC"), which is calculated as the average annual compensation during a prescribed period of time based on the particular category of membership an employee falls within. For example, the AFC for Group F employees (the largest VSRS employee group) is calculated as the average annual compensation during the highest three consecutive years. Participants also are offered an early retirement benefit after a prescribed number of years' service, if age requirements for those retirement benefits are met. For a summary of the benefit provisions for each of the VSRS and STRS systems, see the most recent Funding Valuation Reports referenced above.

Recent Legislative Changes Affecting Benefits Levels. The Legislature has in the past adopted laws that have had the effect of both increasing and decreasing future retirement benefits payable under VSRS and STRS. Any increases in retirement benefits have the effect of increasing the actuarial accrued liability of the system, which also has the effect of increasing the ARC/ADEC for the State for such system. Any decreases in benefits have the effect of limiting the future growth of the actuarial accrued liability of the system, which also has the effect of limiting the growth of the ARC/ADEC for the State for such system in future plan years.

Under legislation enacted in fiscal year 2008, VSRS benefits were modified in three respects for members hired on or after July 1, 2008. First, the maximum benefit payable was increased from 50% to 60% of the AFC. Second, the eligibility condition for an unreduced benefit changed from the attainment of age 62 or 30 years of service to age 65 or a "Rule of 87." The "Rule of 87" refers to the sum of the employee's age and years of service. Third, for members not eligible for an unreduced benefit, the reduction for early retirement changed from a uniform 6% per year to one determined on a service-based schedule. The remaining significant provision of the same legislation makes changes to retiree cost of living adjustments (COLA). The annual COLA applicable to the benefits of Group F members retiring after July 1, 2008 increased from 50% of the annual increase of the Consumer Price Index (CPI) to 100% of the annual increase in the CPI index, up to a ceiling of 5%, effective January 1, 2014. Only current Group F members who were actively contributing into the system on June 30, 2008 and retire on or after July 1, 2008 were eligible for the enhanced COLA in 2014.

In an effort to partially offset the increased benefits described above, under legislation enacted in fiscal years 2008 and 2011, contribution rates for State employees in the VSRS system were increased. Effective July 1, 2008, the contribution rate for Group F employees was raised, through legislation enacted in fiscal year 2008, from 3.35% to 5.1%, due to the increases in the cost of living benefit for all Group F employees described above. Subsequently, legislation was enacted in fiscal year 2011, effective July 1, 2011, that again raised the contribution rate for Group F employees, as well as all other State employees. In particular, the rate for Group F employees was increased from 5.10% to 6.40%. These rate increases were due to sunset on June 30, 2016. However, legislation was enacted in fiscal year 2016, effective July 1, 2016, that increased the contribution rate to 6.55% for Group A, D and F members and 8.43% for Group C members. When VSRS has been determined by the actuary to have assets at least equal to its accrued liability, contribution rates will be reevaluated by the actuary with a subsequent recommendation to the General Assembly.

Following negotiations with the Vermont National Education Association ("VNEA"), significant benefit changes and cost reductions to the STRS system were adopted by the Legislature in 2010 (see Act 74 of 2010 and Act 139 of 2010) (the "VNEA Benefits Legislation"). These changes have resulted in annual savings of more than $15 million per year. For STRS employees more than five years from normal retirement eligibility (less than 25 years of service or less than 57 years old), normal retirement will be 65 or "rule of 90" (combination of years of service and age), instead of 62 years old or with 30 years of service at any age. Early retirement will stay at 55, but the benefit reduction will be based on an actuarial calculation rather than a set percentage as previously calculated. In addition, employees more than five years from normal retirement eligibility will be eligible for a maximum benefit of 60% of AFC, instead of the current 50% of AFC, with a higher (2% instead of 1.67%) multiplier upon completion of 20 years of service. The employee contribution rate increased from 3.54% to 5.0% for all employees. The legislation also prohibits extraordinary increases in AFC (limit of 10% per year during AFC determination period) being used to determine retirement benefit levels.

The VNEA Benefits Legislation also creates a tiered medical premium co-payment structure. For new hires and those with less than ten years of service the following premium structure applies: no subsidized coverage for retirees with one to 14 years of service, 60% premium single coverage at 15 years, 70% single premium coverage at 20 years, and 80% premium single or spousal coverage at 25 years of service. For current actives as of July 1, 2010 with more than ten years of service, the current 80% single premium coverage continues with the availability of spousal coverage at the same percentage with retirement with 25 years of service.

In 2014, the Legislature passed Act 179, which included an increase in employee contributions for STRS employees with less than five years' service as of July 1, 2014, from 5% to 6% of earnable compensation.

In fiscal year 2010, the State offered a retirement incentive program. It did not incorporate any enhancements to the retirement benefits or years of service but did offer a cash pay-out, to be paid over two years, using non-pension funds, to encourage those already eligible for normal retirement to retire. Incentives were calculated based on years of creditable service and capped at $15,000. This program resulted in 242 retirements. The retirement incentive legislation stipulates that the State may only refill up to two-thirds of the positions, leaving at least one-third vacant.

In fiscal year 2016, the State offered a retirement incentive program to up to 300 employees. Similar to the 2010 program, this program did not incorporate any enhancements to the retirement benefits or years of service but did offer a cash pay-out, using non-pension funds, to encourage those already eligible for normal retirement to retire. Incentives were calculated based on years of creditable service and capped at $15,000, payable in two installments in fiscal years 2016 and 2017. The program resulted in 219 retirements. The retirement incentive legislation stipulates that the State may only refill up to 25% of the positions, leaving at least 75% of the positions vacant.

Funded Status and Funding Progress

The amount that the State actually contributes to each system is subject to the Governor's budget request and annual appropriations by the Legislature. In adopting the budget, the Legislature is not required to follow the recommendations of the actuaries or the Governor in determining the appropriation for the State's contribution to each system. Budgeted appropriations to fund the ARC/ADEC for VSRS and STRS are determined based on the Funding Valuation Reports that are completed and delivered for each system in October of the prior fiscal year. When the next Funding Valuation Report is delivered the following October, a "true-up" adjustment to the ARC/ADEC calculation for the current fiscal year is made (based on actual experience over the prior fiscal year), which may increase or decrease the ARC/ADEC relative to the ARC/ADEC used for appropriation in that fiscal year.[1] Appropriations, however, are not adjusted to reflect the revised ARC/ADEC calculation, but rather remain based on the projected ARC/ADEC calculated in the prior fiscal year's October Funding Valuation Report.

For the VSRS, the fiscal year 2017 ARC/ADEC was $48.5 million, based on the Funding Valuation Report for the year ended June 30, 2015. A small portion is typically paid by member towns, estimated at $1.0 million, leaving a State portion of $47.5 million. The State also contributes an amount to prepay the Treasurer's estimate of non-healthcare administrative expenses, which was $2.1 million for fiscal year 2017, making the total State contribution $49.6 million. The fiscal year 2017 budget fully funded the State's portion of the fiscal year 2017 ARC/ADEC for VSRS. For fiscal year 2018, the VSRS ARC/ADEC was $52.1 million, based on the Funding Valuation Report for the year ended June 30, 2016. Based on an estimate of $1.0 million of contributions by town participants, the actuarial recommendation was reduced to $51.1 million. The State also contributes an amount to prepay the Treasurer's estimate of non-healthcare administrative expenses, which for fiscal year 2018 is $2.2 million, for a total State planned contribution of $53.3 million. The fiscal year 2018 budget fully funded the State's portion of the fiscal year 2018 ARC/ADEC for VSRS.

As set forth in the latest Funding Valuation Report for VSRS referenced above (the "2016 VSRS report"), the "true-up" adjustment to the ARC/ADEC calculation for fiscal year 2017 recalculates the ARC/ADEC to be $49.8 million. In addition, the 2016 VSRS report sets forth the following projection of contributions for fiscal years 2018 and 2019.[2]

	Projected ARC/ADEC (VSRS)		
Fiscal Year	Normal Cost	UAAL	Total
2018	$14,037,814	$38,027,583	$52,065,397
2019	14,529,138	39,928,962	54,458,100

In addition, Schedule E to the 2016 VSRS report sets forth a projected amortization schedule for the UAAL. It projects that the amortization payments will increase from $36.2 million as of June 30, 2016 to $100.9 million as of June 30, 2037, the currently projected final amortization payment. The amortization schedule has been

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[1] In particular, with respect to VSRS, since VSRS ADEC contributions are made through assessment of employer payroll cost centers, there can be variances between projected and actual contributions. The difference between actual contributions and projected contributions factors into the "true-up" adjustment to the ADEC calculation for the current fiscal year.

[2] See Schedule F to the 2016 VSRS report.

changed in statute. See “Recent Action Affecting the Amortization of Unfunded Liabilities” below. This will likely result in reducing the overall interest payments and an earlier reduction of the unfunded liability based on the 2016 valuation.

For the STRS, the fiscal year 2017 ARC/ADEC was $82.7 million, based on the Funding Valuation Report for the year ended June 30, 2015. The fiscal year 2017 ARC/ADEC for the STRS was fully funded. The Fiscal Year 2018 ARC/ADEC for the STRS was $88.4 million, based on the funding valuation report for the year ended June 30, 2016. The State expects to fully fund the Fiscal Year 2018 STRS ARC/ADEC from base appropriations and contributions from local school systems or educational entities. As set forth in the latest Funding Valuation Report for STRS referenced above (the “2016 STRS report”), the “true-up” adjustment to the ARC/ADEC calculation for fiscal year 2017 recalculates the ARC/ADEC to be $84.0 million. In addition, the 2016 STRS report sets forth the following projection of contributions for fiscal years 2018 and 2019.[1]

	Projected ARC/ADEC (STRS)		
Fiscal Year	Normal Cost	UAAL	Total
2018	$8,346,261	$80,063,176	$88,409,437
2019	8,596,649	84,066,334	92,662,983

In addition, Schedule E to the 2016 STRS report sets forth a projected amortization schedule for the UAAL. It projects that the amortization payments will increase from $76.3 million as of June 30, 2016 to $212.4 million as of June 30, 2037, the currently projected final amortization payment. The amortization schedule has been changed in statute. See “Recent Action Affecting the Amortization of Unfunded Liabilities” below. This will likely result in reducing the overall interest payments and an earlier reduction of the unfunded liability based on the 2016 valuation.

The following table provides an analysis of funding progress for each of the State’s defined benefit pension plans from 2007 through 2016, based on the annual Funding Valuation Report for each respective year. The annual actuarial valuation report for fiscal year 2017 is not expected to be available until November 2017.

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[1] See Schedule G to the 2016 STRS report.

Public Employee Retirement Systems Defined Benefit Plans
Analysis of Funding Progress Using GASB Statement No. 25[1]
($ in thousands)

	Actuarial Valuation Date (June 30)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
Vermont State Employees' Retirement System							
	2007	$1,318,687	$1,307,643	$(11,044)	100.8%	$386,917	(2.9)%
	2008	1,377,101	1,464,202	87,101	94.1	404,953	21.5
	2009	1,217,638	1,544,144	326,506	78.9	404,516	80.7
	2010	1,265,404	1,559,324	293,920	81.2	393,829	74.6
	2011	1,348,763	1,695,301	346,538	79.6	398,264	87.0
	2012	1,400,779	1,802,604	401,825	77.7	385,526	104.2
	2013	1,469,170	1,914,300	445,130	76.8	416,766	106.8
	2014	1,566,076	2,010,090	444,014	77.9	437,676	101.4
	2015	1,636,268	2,178,827	542,559	75.1	462,057	117.4
	2016	1,707,268	2,289,452	582,184	74.6	471,268	123.5
Vermont State Teachers' Retirement System							
	2007	$1,541,860	$1,816,650	$ 274,790	84.9%	$515,573	53.3%
	2008	1,605,462	1,984,967	379,505	80.9	535,807	70.8
	2009	1,374,079	2,101,838	727,759	65.4	561,588	129.6
	2010	1,410,368	2,122,191	711,823	66.5	562,150	126.6
	2011	1,486,698	2,331,806	845,108	63.8	547,748	154.3
	2012	1,517,410	2,462,913	945,502	61.6	561,179	168.5
	2013	1,552,924	2,566,834	1,013,910	60.5	563,623	179.9
	2014	1,610,286	2,687,049	1,076,764	59.9	567,074	189.9
	2015	1,662,346	2,837,375	1,175,029	58.6	576,394	203.9
	2016	1,716,296	2,942,024	1,225,728	58.0	586,397	209.0
Vermont Municipal Employees' Retirement System							
	2007	$325,774	$309,853	$(15,921)	105.1%	$162,321	(9.8)%
	2008	348,740	343,685	(5,055)	101.5	175,894	(2.9)
	2009	331,407	366,973	35,566	90.3	191,521	18.6
	2010	376,153	409,022	32,869	92.0	202,405	16.2
	2011	402,550	436,229	33,679	92.3	205,589	16.4
	2012	417,443	488,572	71,129	85.4	215,075	33.1
	2013	446,236	528,426	82,190	84.4	220,372	37.3
	2014	500,558	580,972	80,414	86.2	230,969	34.8
	2015	543,768	699,293	155,525	77.0	249,811	62.0
	2016	581,611	744,960	163,349	78.0	256,730	63.0

Source: Funding Valuation Reports

[1] GASB Statement No. 25 has been amended by GASB 67 (see "PENSION PLANS – Recent Changes to Pension Obligation Reporting" herein). This table does not reflect the reporting standards set forth under GASB 67, but rather is presented for informational purposes only to provide comparison data for the past ten years. Data presented in the table was derived from the Funding Valuation Reports, but the table has not been reviewed by the State's consulting actuary.

Defined Contribution Retirement Plans

The State established an optional defined contribution plan for exempt State employees effective January 1, 1999. Exempt employees hired after January 1, 1999 have a one-time opportunity to elect either the defined benefit or the defined contribution plan. As of June 30, 2016, the VSRS Defined Contribution Plan's net assets totaled $57.2 million and there were 602 participants.

The Legislature granted authority to VMERS's Board of Trustees to establish a defined contribution plan that may be offered in lieu of the defined benefit plan currently available under VMERS. The plan was made available to new members effective July 1, 2000. The defined contribution plan may be offered by municipal employers to one or more groups of eligible employees. Once offered by the employer, each eligible employee is required to make an election to participate. As of June 30, 2016, the VMERS Defined Contribution Plan's net assets totaled $20.6 million and there were 512 participants.

Recent Changes to Pension Obligation Reporting

GASB Statement No. 67

In June 2012, GASB issued GASB Statement No. 67 ("GASB 67"), which amended GASB Statement No. 25 and set forth new standards that modified the financial reporting of the State's pension obligations. GASB 67 requires changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability ("NPL"). It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment disclosures. The new standard was effective commencing with the State's fiscal year 2014 reports.

One significant change implemented by GASB 67 is that reporting under the new requirements is based on the market value of assets. This will likely result in increased volatility in the NPL and pension expense from year to year. Accordingly, the State will continue to prepare reports based on its established funding methodology, incorporating the generation of an ADEC as the basis for its funding recommendation to the Governor and the General Assembly. Commencing with fiscal year 2014, however, the State's actuary now also prepares a report for each system reflecting fiscal year results under the new accounting requirements (the "GASB 67 Reports"). The GASB 67 Reports for the fiscal year ending June 30, 2016 are incorporated herein by reference and are available at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/PDF/2016/VSERS%206-30-2016%20GASB%2067.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTERS-reports/VSTRS%206-30-2016%20GASB%2067%20Draft.pdf

VMERS: http://www.vermonttreasurer.gov/sites/treasurer/files/VMERS/VMERS-reports/VMERS%206-30-2016%20GASB%2067.pdf

The fiscal year 2016 GASB 67 Reports are based on fiscal year 2015 census data rolled forward to fiscal year 2016, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2016. For the purpose of complying with GASB 67, the actuarial assumptions incorporate the use of market value of assets (as previously described) and the entry age normal (EAN) actuarial method. The long-term expected rate of return is determined using best estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. The single discount rate used for the fiscal year 2016 GASB 67 Reports was 7.95% for both VSRS and STRS.

The following table provides an analysis of funding progress for each of the State's defined benefit pension plans for fiscal year 2016 based on the GASB 67 Reports. The NPL is calculated using the plan assets of each system at their market value (Fiduciary Net Position) and a single discount rate (calculated as described above). The UAAL shown in the table above labeled "Public Employee Retirement Systems Defined Benefit Plans, Analysis of Funding Progress Using GASB Statement No. 25", by contrast, uses a smoothing method to determine the Actuarial Value of Assets at the plan's assumed rate of return.

Schedule of Changes in the Net Pension Liability and Related Ratios Using GASB Statement No. 67
($ in thousands)

	Actuarial Valuation Date (June 30)	System Fiduciary Net Position[1]	Total Pension Liability	Net Pension Liability	System Fiduciary Net Position as a Percentage of the Total Pension Liability	Covered Payroll[2]	Net Pension Liability as a Percentage of Covered Payroll
VSRS	2016	$1,609,650	$2,271,588	$661,938	70.86%	$462,057	143.26%
STRS	2016	$1,620,900	$2,930,423	$1,309,523	55.31%	$557,708	234.80%
VMERS	2016	$547,015	$675,711	$128,696	80.95%	$249,811	51.52%

[1] Represents the market value of plan assets as of the actuarial valuation date.
[2] As of the actuarial valuation date.

The GASB 67 Reports present both a net pension liability (NPL) and a funding percentage. Because both VSRS and STRS use the EAN actuarial method for funding, which is the required method for GASB 67, variances between the funding and GASB No. 67 reports are primarily, but not exclusively, related to market value differences. For VMERS, however, the variance between the funding valuations and the GASB 67 numbers are significant as the VMERS system does not use the prescribed EAN method for funding valuation purposes.

GASB 67 also requires an analysis to determine the sensitivity of the NPL to changes in the discount rate, if it were calculated one percentage point lower or one percentage point higher. The results for fiscal year 2016 are as follows:

($ in thousands)	VSRS	STRS
One percent (1%) decrease		
Discount Rate	6.95%	6.95%
Net Pension Liability	$938,167	$1,638,648
Net Pension Liability, as reported		
Discount Rate	7.95%	7.95%
Net Pension Liability	$661,938	$1,309,523
One percent (1%) increase		
Discount Rate	8.95%	8.95%
Net Pension Liability	$430,863	$1,033,302

The funding position for each of the systems decreased in fiscal year 2016 (i.e., the NPL increased) relative to fiscal year 2015 due in part to the fact that the aggregate rates of return on the assets of the systems for the fiscal year were approximately 1.4% for VSRS and 1.7% for STRS, resulting in a lower fair market value of assets for each system for the purposes of the GASB 67 reports.

The GASB 67 Reports for the fiscal year ending June 30, 2017 are expected to be completed by November 2017 and, once approved by the respective system boards, will be posted on the State Treasurer's website at: http://www.vermonttreasurer.gov/reports. The fiscal year 2017 GASB 67 Reports will be based on fiscal year 2016 census data rolled forward to fiscal year 2017, taking into account actual benefit and expense payments made during the year, any benefit and contribution plan changes and the market value of assets as of June 30, 2017.

GASB Statement No. 68

In June 2012, GASB also issued GASB Statement No. 68, which set forth new standards that modified the accounting and financial reporting of the State's pension obligations. The new standard for governments that provide employee pension benefits requires the State to report in its Statement of Net Position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard requires immediate recognition of more pension expense than was previously required. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The date after which a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds is required to be used is referred to as a "crossover date."

The new GASB 68 standard was effective commencing with the State's fiscal year 2015. For fiscal year 2016, the State has elected to use to use fiscal year 2015 as a measurement date, which means that the NPL reported in the State's CAFR for the fiscal year ended June 30, 2016 is based on the fair value of assets as of June 30, 2015. As of June 30, 2016, the State reported an NPL of $1,731.5 million, of which $545.0 million is allocable to VSRS and $1,186.5 million is allocable to STRS. The State's actuary has completed its analysis as to the appropriate discount rate for calculation of the NPL for fiscal year 2016 (based on a June 30, 2015 measurement date) and concluded that none of the three plans experienced a "crossover" event. The measurement of the State's NPL for fiscal year 2016 assumes a long-term expected rate of return of plan investments of 7.95%. The NPL for the fiscal year ended June 30, 2017 has been completed and is based on the fair value of assets as of June 30, 2016. As of June 30, 2017, the State reported an NPL of $1,971.4 million, of which $661.9 million is allocable to VSRS and $1,309.5 million is allocable to STRS.

Recent Action Affecting the Amortization of Unfunded Liabilities

Legislation was enacted in fiscal year 2016 to change the amortization rate on the unfunded liability beginning on July 1, 2019. Beginning on July 1, 2019 and annually thereafter, the amount of each annual basic accrued liability contribution shall be determined by amortization of the unfunded liability over the remainder amortization period ending 2038 in installments increasing at a rate of three percent per year, instead of the rate of five percent as provided previously. Leveling out the payment schedule to a rate more consistent with the long term assumed rate of inflation would increase ARC/ADEC payments in the short-term but will have the likely effect of reducing the overall interest payments and result in an earlier reduction of the unfunded liability.

Other Post-Employment Benefits

Overview. Beginning in fiscal year 2008, pursuant to rules adopted by the Governmental Accounting Standards Board covering non-pension post-employment benefits, primarily health insurance (GASB Statement Nos. 43 and 45), public sector entities such as the State are required to report the future costs of these benefits on their balance sheets. The standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is more conservative, and therefore results in larger yearly cost and liability accruals if they are funded on a pay-as-you-go basis—as they presently are in Vermont and in many other jurisdictions—and not pre-funded in the same manner as traditional pension benefits.

Recent Legislative Changes Affecting Benefits. On December 31, 2013, STRS discontinued participation in the Medicare Retiree Drug Subsidy ("RDS") program, and enrolled retirees in a Medicare Part D Employer Group Waiver Plan ("EGWP"), plus a supplement, starting January 1, 2014. On December 31, 2014, VSRS also discontinued participation in RDS and enrolled its retirees in EGWP, plus a supplement, starting January 1, 2015. The transfer from RDS to EGWP for each system is expected to result in cost savings to the State while achieving a similar level of service for covered retirees. See "Funding Status and Funding Progress" below for actual and expected savings to date.

Actuarial Valuation. The State's independent actuary has prepared valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2016. Both the VSRS and STRS reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. Since the VSRS has accumulated some assets, a third blended calculation is also included. VMERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated state health care benefit or liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The difference between the value of prefunded and pay-as-you-go OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the State's rate of return on non-pension, liquid investments over the long term. The discount rate for both systems is estimated at 4.0%. In the event of prefunding, the discount rate would increase to a return on long-term investments consistent with the respective pension funds, currently estimated at 7.95% for VSRS and for STRS. In order to treat its OPEB liabilities as prefunded, the State would have to enact legislation providing for the deposit of annual contributions in an irrevocable trust, in the manner similar to the pension funds. As further described below, an OPEB trust has been established for VSRS although funding to date is limited to the deposit of Medicare-D subsidies received for State employees' health programs. The Retired Teachers' Health and Medical Benefit Fund (see below) is an OPEB fund and was established in fiscal year 2015.

For VSRS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2016 is $1,165.8 million with a UAAL of $1,144.4 million. This represents a net increase of $51.3 million as compared to the UAAL as of June 30, 2015 of $1,093.1 million. The increase in liability is primarily attributable to the following factors:

- Expected increases due to the passage of time;
- Demographic experience different than expected; and
- Updated mortality assumption.

Based on the actuarial report for the year ended June 30, 2016, the VSRS OPEB ADECs for fiscal years 2017 and 2018, each calculated assuming no additional prefunding and an assumed discount rate of 4.0%, are $71.8 million and $74.7 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for VSRS OPEB obligations earned through June 30, 2016 is reduced to $703.8 million with a UAAL of $682.5 million, and the OPEB ADEC for fiscal years 2017 and 2018 are calculated to be $47.8 million and $49.6 million, respectively. In fiscal year 2016, the State funded actual health care pay-as-you-go payments for VSRS in the amount of $31.6 million. In fiscal year 2017, the State health care pay-as-you-go payments for VSRS were approximately $33.4 million. For fiscal year 2018, the State budgeted these payments at $36.6 million.

For STRS, assuming no prefunding, the actuarial accrued liability for OPEB obligations earned through June 30, 2016 is $656.9 million with a UAAL of $677.9 million. This represents a net decrease of $325.2 million over the UAAL as of June 30, 2015 of $1,003.1 million. Updates to the methodology that is used in setting cost assumptions using actual claims information for the STRS population was the primary factor in the decrease. This decrease was partially offset by:

- Expected increases due to the passage of time;
- Impact of recent year's demographic experience; and
- Changes to the participation assumptions for current and future retirees and spouses.

Based on the actuarial report for the year ended June 30, 2016, the STRS OPEB ADECs for fiscal years 2017 and 2018, each calculated on the pay-as-you-go basis at an assumed discount rate of 4.00%, are $35.9 million and $37.3 million, respectively. If, however, prefunding is assumed, the actuarial accrued liability for STRS OPEB obligations earned through June 30, 2016 is reduced to $382.3 million with a UAAL of $403.2 million, and the OPEB ADEC for fiscal years 2017 and 2018 are calculated to be $25.9 million and $27.0 million, respectively. In fiscal year 2016, the State funded actual health care pay-as-you-go payments for STRS in the amount of $27.3 million. In fiscal year 2017, the State health care pay-as-you-go payments for STRS were approximately $34.0 million. For fiscal year 2018, the State budgeted these payments at $35.5 million.

The actuarial valuations of the OPEB liabilities for VSRS and STRS as of June 30, 2016 are posted on the State Treasurer's website at:

VSRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSERS/VSERS-reports/2016%20Employees%20GASB%2045%20FINAL.pdf

STRS: http://www.vermonttreasurer.gov/sites/treasurer/files/VSTRS/VSTERS-reports/2016%20Teachers%20GASB%2045%20FINAL.pdf

Funding Status and Funding Progress. The State has not yet made decisions on when or how it will fund the full OPEB ADEC, although it has taken several steps. In fiscal year 2007, an irrevocable trust was established to be administered by the State Treasurer for the purpose of accumulating and providing reserves to fund retiree post-employment benefits for members of the VSRS, excluding pensions and benefits otherwise appropriated by statute.

In the case of VSRS, current year heath care expenses are expressly funded, separate from the pension actuarial contribution. In the case of STRS, until the end of fiscal year 2014, the health care expenses were paid through a sub-fund of the pension fund but were not explicitly budgeted or funded, were treated as an amortized actuarial loss, and were therefore not included in the net OPEB Obligation ("NOO") calculation, but rather were reflected as part of the Net Pension Obligation ("NPO"). In Act 179 of 2014, the Vermont Legislature created the Retired Teachers' Health and Medical Benefits Fund to explicitly fund current year health care expenses separate from the pension actuarial contribution, commencing July 1, 2014.

The Retired Teachers' Health and Medical Benefit Fund receives funding from a combination of sources including General Fund appropriations, Employer Group Waiver Plan (EGWP) subsidies, and, starting in fiscal year 2016, an annual health care assessment on newly-hired teachers. As described in "STATE INDEBTEDNESS – Short-Term Debt," the State Treasurer is also authorized to use interfund borrowings of up to a total of $30 million to finance any funding shortfalls, and it is the Legislature's intent to repay any such borrowing by the end of fiscal year 2023. For fiscal year 2015, the Retired Teachers' Health and Medical Benefits Fund received appropriations of $8.6 million from the General Fund, $2.5 million from the Property Tax Relief Fund, and $4.25 million from additional sources including EGWP receipts, and an additional General Fund appropriation of $3.6 million from the year-end allocation of excess receipts. For fiscal year 2016, the fund received appropriations of $15.6 million from the General Fund. The State utilized interfund borrowings of $6.25 million in 2017 and expects to utilize additional interfund borrowings of $5.47 million in fiscal year 2018 to fund the Retired Teachers' Health and Medical Benefits Fund. The fiscal year 2018 budget reduced the authorized amount of interfund borrowings to $25.8 million, and further changed the calculation to incorporate the bottom line performance of the fund and exclude normal federal and local receivables from the long-term loan limit. As a result of these revisions, the fiscal year 2016 to date interfund loan was $20,961,072. See Note IV.G.4 to the State's fiscal year 2016 CAFR for additional information on the funded status and the development of the NPO and NOO.

The funding status as of June 30, 2016 is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	UAAL	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
VSRS:						
2016	$21,353	$1,165,803	$1,144,450	1.8%	$497,222	230.2%
STRS						
2016	$(20,961)	$656,937	$677,898	(3.2)%	$606,843	111.7%

Note: Both systems reflect a calculation on the pay-as-you-go basis at a discount rate of 4.0%.

LABOR RELATIONS

As of June 30, 2017, there were 8,346 employees (approximately 8,291 full time equivalent positions) in the executive branch of State government. This figure includes both classified and exempt positions. Seasonal work force needs affect the number of temporary employees. Therefore, they are not included in the number of employees.

Most of the State's classified employees in certified bargaining units are represented by the Vermont State Employees' Association (VSEA). The approximately 273 members of the Vermont State Police bargaining unit (for the rank of Sergeant and below) are represented by the Vermont Troopers' Association (VTA). The State's current contract with its unionized VSEA employees, which began on July 1, 2016 and expires on June 30, 2018, provides for the continuation of longevity-based salary increases (steps) and a 2.0% across the board pay increase effective July 10, 2016, and an additional 2.25% across the board pay increase with the continuation of steps effective July 9, 2017. The VTA bargaining unit agreement (beginning July 1, 2016 and expiring June 30, 2018) provides for the continuation of longevity-based salary increases and a 2.0% across the board pay increases effective July 10, 2016, and an additional 2.25% across the board pay increase with the continuation of steps effective July 9, 2017.

LITIGATION

The State, its agencies, officials and employees are defendants in numerous lawsuits involving tort, contract, civil rights and employment claims. While the State is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts, the State believes that the likelihood of such litigation resulting, either individually or in the aggregate, in final judgments against the State that would materially affect its financial position is remote. See "CERTIFICATES OF STATE OFFICERS – Absence of Litigation" for a discussion of the Attorney General's certificate regarding litigation affecting the Bonds. See also Note V.D to the audited basic financial statements of the State for fiscal year 2016, attached as Appendix A to this Official Statement.

Pursuant to 33 V.S.A. §1953, the Department of Vermont Health Care Access ("DVHA") is authorized to assess an annual tax on hospitals in the State based on a percentage of the hospital's net patient revenues. In 2013, nine hospitals in the State formally requested that DVHA reconsider the amount of their hospital tax assessments for that year, claiming that DVHA's interpretation and administration of the statute was flawed and had resulted in excessive tax assessments. The hospitals sought a refund of approximately $37 million in allegedly overpaid hospital taxes for fiscal year 2013. After reconsideration hearings conducted by the DVHA commissioner, which were decided in favor of the State, and two subsequent unsuccessful appeals by the hospitals in State superior court, the last of which was dismissed with prejudice, the hospitals have abandoned this claim. Accordingly there is no further litigation relating to this matter at the present time.

TAX MATTERS

In the opinion of Locke Lord LLP, Bond Counsel to the State of Vermont ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The State has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. Bond Counsel expresses no opinion regarding any other State of Vermont tax consequences arising with respect to the Bonds. Bond Counsel also has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than the State of Vermont. Complete copies of the proposed forms of opinion of Bond Counsel are set forth in Appendix C hereto.

To the extent the issue price of any maturity of either series of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the reasonably expected initial offering price to the public or, if applicable, the first price at which a substantial amount of such maturity of the Bonds is sold to the public. The original issue discount with respect to any particular maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the reasonably expected initial offering price to the public, or, if applicable, the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and State of Vermont personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Beneficial Owner's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and interest on the Bonds is exempt from State of Vermont personal income taxes and State of Vermont corporate income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondholder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

FINANCIAL ADVISOR

Public Resources Advisory Group, Media, Pennsylvania ("PRAG"), serves as independent financial advisor to the State on matters relating to debt management. In its capacity as financial advisor to the State, PRAG has read and participated in the preparation of certain portions of this Official Statement. PRAG is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiated instruments. PRAG is not obligated to undertake to make an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

UNDERWRITING OF THE SERIES A BONDS

The Series A Bonds are being purchased for re-offering by the underwriters named on the cover page of this Official Statement (the "Series A Underwriters"), at an aggregate purchase price of $38,517,818.55 and the Series A Underwriters will receive a fee from the State in an amount equal to $145,004.13. Pursuant to the Contract of Purchase, the Series A Underwriters have jointly and severally agreed, subject to certain conditions, to purchase all, but not less than all, of the Series A Bonds if any are purchased. Subject to the Contract of Purchase, the Series A Underwriters may offer and sell the Series A Bonds to certain dealers and others (including dealers depositing Series A Bonds into investment trusts) at prices lower (or yields higher) than the public offering prices (or yields) stated on the inside cover page hereof, and the public offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Series A Underwriters.

The following language has been provided by the underwriters named therein. The State takes no responsibility as to the accuracy or completeness thereof.

Morgan Stanley & Co. LLC, one of the underwriters of the Series A Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series A Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the Series A Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings, including the Series A Bonds, at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series A Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series A Bonds that such firm sells.

COMPETITIVE SALE OF THE SERIES B BONDS

After competitive bidding on August 23, 2017, the Series B Bonds were awarded to Morgan Stanley & Co. LLC ("Morgan Stanley"). Morgan Stanley has supplied the information as to the public offering yields or prices of the Series B Bonds set forth on the inside cover page hereof. Morgan Stanley has informed the State that if all of the Series B Bonds are resold to the public at those yields or prices, they anticipate the total underwriter's compensation for the Series B Bonds to be $165,514.39. Morgan Stanley may change the public offering yields or prices from time to time.

The following language has been provided by Morgan Stanley. The State takes no responsibility as to the accuracy or completeness thereof.

Morgan Stanley has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series B Bonds.

RATINGS

The State has received ratings of "AAA," "Aaa" and "AA+" from Fitch Inc., Moody's Investors Service and S&P Global Ratings (each, a "Rating Agency"), respectively, on the Bonds. The State furnished each Rating Agency with certain information and materials concerning the Bonds and the State. Generally, each Rating Agency bases its rating on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. There is no assurance that such rating will continue for any given period of time or that such rating may not be suspended, lowered or withdrawn entirely by such Rating Agency if, in its judgment, circumstances so warrant. Any explanation of the significance of the ratings may be obtained only from each respective Rating Agency.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the State are subject to the approval of Locke Lord LLP, Boston, Massachusetts, Bond Counsel, whose approving opinion will be delivered with the Bonds. A copy of the proposed form of opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Series A Underwriters by Nixon Peabody LLP, Boston, Massachusetts.

CERTIFICATES OF STATE OFFICERS

Absence of Litigation

Upon delivery of the Bonds, the State will furnish a certificate of the Attorney General of the State, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or to the best of such officer's knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof, or the levy or collection or enforcement of any taxes to pay principal of or interest on the Bonds.

The Governor's and Treasurer's Certificate

Upon delivery of the Bonds, the State shall furnish a certificate, dated the date of delivery of the Bonds, signed by the Governor and the Treasurer of the State, certifying that to the best of their knowledge this Official Statement, as of the date of this Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

CONTINUING DISCLOSURE AGREEMENT

The State has covenanted for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the State by not later than within one year following the end of the State's fiscal year, (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and event notices will be filed by the State with the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Report or the event notices is summarized below in Appendix B hereto, "Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the purchasers in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). The State is not aware of any failure to comply in any material respect with any of its previous undertakings with respect to the Rule in the previous five years.

ADDITIONAL INFORMATION

The Commissioner of Finance and Management reports on the financial conditions for the State including its operations and balances, receipts, and disbursements of the various funds in the Annual Financial Report. In addition, the State regularly receives reports from consultants, commissions, and special task forces relating to various aspects of the State's financial affairs, including capital projects, State and local services, taxation, revenue estimates, pensions, and other matters.

Additional information may be obtained upon request from the office of the State Treasurer, Hon. Elizabeth A. Pearce, Pavilion Building, 109 State Street, Montpelier, Vermont 05609-6200, Telephone: (802) 828-2301 or from Mr. Thomas F. Huestis, Senior Managing Director, Public Resources Advisory Group, 117 Gayley Street, Suite 200, Media, Pennsylvania 19063, Telephone: (610) 565-5990.

It is the current policy of the State to provide copies of the General Obligation Bond Law, prior Official Statements of the State and the State's annual financial reports upon request. The State reserves the right at any time to change this policy to comply with law or for any other reason.

Several discussions throughout this Official Statement are based, in part, on projections and forward looking statements related to fiscal year 2018 and subsequent years. No assurance can be given that the budget, the revenue and expenditure estimates or the forward-looking statements discussed will be realized. The accuracy of the budget, the revenue and expenditure estimates and forward statements related to fiscal years 2018 and 2019 cannot be verified until after the close of the fiscal year. In addition the accuracy of all projections and forward statements is dependent on a number of factors including (1) general economic factors that affect local source revenues such as individual income taxes and sales and use taxes, (2) general factors that affect the United States economy and the State economy, and (3) the accuracy of data relating to employment, inflation and income growth in the United States and in the State.

Any statements in the Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. This Official Statement is not to be construed as a contract or agreement between the State and the purchasers or holders of any of the Bonds.

This Official Statement is submitted only in connection with the sale of the Bonds by the State and may not be reproduced or used in whole or in part for any other purpose.

By: /s/ Philip B. Scott
Governor

By: /s/ Elizabeth A. Pearce
Treasurer

APPENDIX A

STATE OF VERMONT'S ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The information in this Appendix A includes pages 13 through 175 of the State of Vermont's Comprehensive Annual Financial Report ("CAFR") for the fiscal year ended June 30, 2016. The entire CAFR is available from the Department of Finance and Management's website at http://finance.vermont.gov/reports-and-publications/cafr.

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KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain discretely presented component units identified in Note IA. We also did not audit the financial statements of the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, or the Tri-State Lotto Commission. The discretely presented component units identified in Note IA represent 94% of the total assets and 99% of the total revenues of the aggregate discretely presented component units. The Vermont Lottery Commission represents 100% of the total assets and total revenues of the Vermont Lottery Commission Fund and 3% of the total assets and 36% of the total revenues of the business-type activities. The Special Environmental Revolving Fund represents 66% of the total assets and 5% of the total revenues of the Federal Revenue Fund. The Vermont Energy Efficiency Utility Fund and the Vermont Universal Service Fund collectively represent 12% of the total assets and 12% of the total revenues of the Special Fund and collectively represent 8% of the total assets and 2% of the total revenues of the governmental activities. The Tri-State Lotto Commission represents 100% of the information disclosed in Note VE. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component units, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, and the Tri-State Lotto Commission are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the State of Vermont as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As disclosed in Note I to the financial statements, the State adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis, and required supplementary information, as listed in the table of contents (collectively referred to as RSI), be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The Introduction, Other Supplementary Information-Combining and Individual Fund Statements and Schedules and the Statistical Section listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information-Combining and Individual Fund Statements and Schedules is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the

United States of America. In our opinion, based on our audit and the reports of other auditors, the Other Supplementary Information-Combining and Individual Fund Statements and Schedules is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introduction and Statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

KPMG LLP

Colchester, Vermont
December 27, 2016

INTRODUCTION

We are pleased to present this analysis and discussion of Vermont's financial performance for the fiscal year ended June 30, 2016. This Management Discussion & Analysis (MD&A) section is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to assist the reader in focusing on significant financial matters, provide an easily readable overview of the State's financial activities, identify any material changes from the original budget, and highlight financial matters that occurred during fiscal year 2016. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

FINANCIAL HIGHLIGHTS

Government-wide

- Vermont reported net position of $1.2 billion, comprised of $4.717 billion in total assets and $474 million in deferred outflows offset by $3.815 billion in total liabilities and $137 million in deferred inflows at June 30, 2016 (Table 2). Of this net position amount, $2.429 billion represents the net investment in capital assets, $941.8 million is restricted for various purposes, and $2.132 billion represents a deficit unrestricted net position. The reasons for the negative unrestricted net position are discussed in the Government-wide Financial Analysis below.

- The primary government's net position has increased by $257.4 million as a result of this year's operations. The net position for governmental activities increased $176.3 million and net position for business activities increased by $81.1 million (Table 3). The increase in net position for business activities was primarily due to improvements in the financial position of the Unemployment Compensation Trust Fund.

Fund level

- The State's governmental funds reported a combined ending fund balance of $1.006 billion, an increase of $68.5 million or 7.3 percent above the prior year. Of this ending fund balance $122 million is non-spendable, $626.2 million is restricted for specific purposes, and $257.6 million is available for spending (committed, assigned, and unassigned fund balance). The increase in ending fund balance is primarily attributable to increases in fund balances of the General Fund ($6.3 million), Special Revenue Funds ($35.7 million), and Capital Projects Funds ($27.2 million), offset by a $733 thousand decrease in the Permanent Funds.

- The State's enterprise funds reported a combined net position of $308.8 million or an increase of $81 million over last year.

- The State's General Fund reported an ending fund balance of $139.3 million, of which $114.6 million is nonspendable, and $24.7 million is available for spending (assigned and unassigned).

Capital assets

- The carrying amount of capital assets for the primary government increased to $2.785 billion, an increase of $237.7 million over last year. The increase is primarily in buildings and improvements, infrastructure assets and machinery and equipment.

Long-term debt

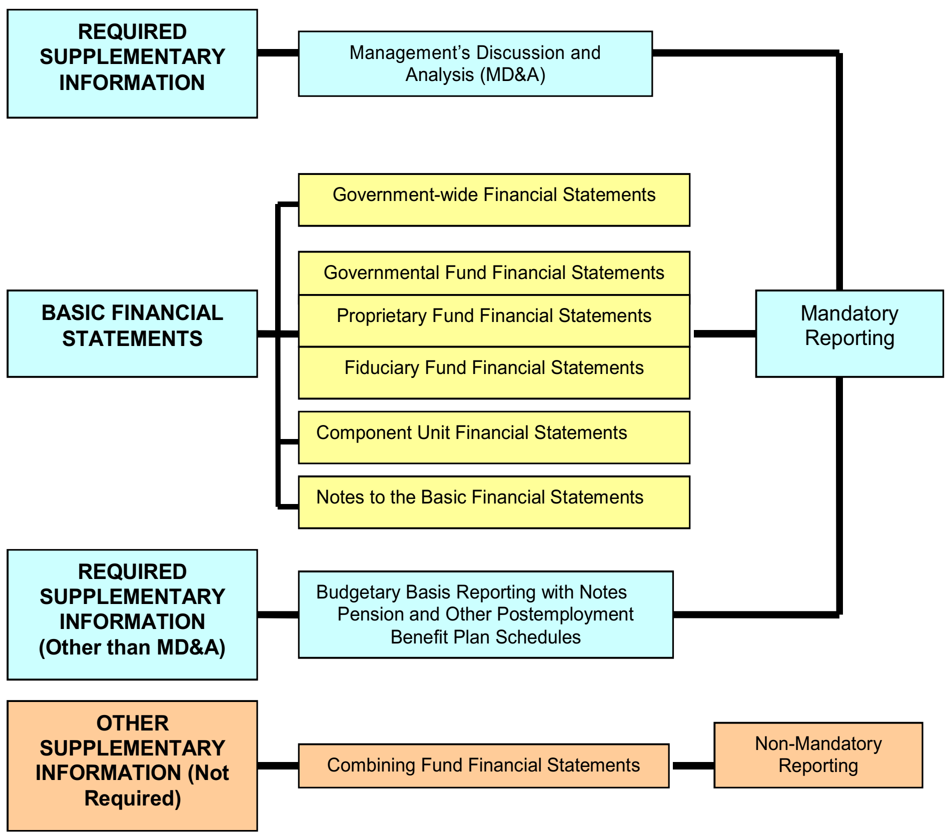
- The State's debt outstanding for general and special obligation Bonds increased $40.3 million as compared to fiscal year 2015. The State issued $115.6 million in general obligation bonds. Also, the State retired $48.5 million in general obligation bonds, and $1.5 million in special obligation transportation infrastructure bonds, and defeased of $25.3 million in general obligation bonds.

More information regarding the government-wide financial statements, fund level financial statements, capital asset activity and long-term debt activity can be found beginning on page 23.

OVERVIEW OF THE FINANCIAL STATEMENTS

This Comprehensive Annual Financial Report (CAFR) consists of an introductory section, a financial section, and a statistical section. The financial section contains the Independent Auditor's Report, this discussion and analysis section, the basic financial statements (BFS) with required supplementary information (RSI), and other supplementary information. Additional information regarding the above sections may be found below as well as in the notes to the financial statements.

The layout of the financial section and the relationship of the financial statements and supplementary information is presented in the following diagram. Notice the relationships between the various elements of the CAFR, such as "mandatory versus non-mandatory" reporting, or "required versus not required" supplementary information. This diagram is designed to illustrate how the various elements of the state's financial activity fit together in this CAFR.



<u>Basic Financial Statements</u>

Vermont's basic financial statements (BFS) consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) component units' financial statements, and 4) notes to the financial statements. The fund financial statements include governmental, proprietary, and fiduciary types of funds that will be described later in this analysis. Notes to the financial statements provide explanations and/or additional detail for all of the above type financial statements and are considered an integral part of the financial statements.

Table 1 summarizes the major features of the basic financial statements with further explanations below:

Table 1 - Major Features of the State's Government-wide and Fund Financial Statements				
	Government-wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire State government (except fiduciary funds) and the State's discretely presented component units	The activities of the State that are not proprietary or fiduciary, such as Human Services and Transportation	Activities the State operates similar to private businesses, such as the Liquor Control Fund and Vermont Lottery Commission	Instances in which the State is the trustee or agent for someone else's resources, such as the retirement plans for public employees
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expense, and Changes in Net Position, Statement of Cash Flows	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset / liability information	All assets and liabilities, both financial and capital, and both short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and both short-term and long-term	All assets and liabilities, both financial and capital, and both short-term and long-term
Type of inflow / outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

1) Government-Wide Financial Statements
Vermont's government-wide financial statements, which follow this MD&A section, are designed to present a broad view of the State's operations and financial position in a manner similar to the accounting principles used by most private-sector business. All of the State's activities except its fiduciary funds' activities are reported in the government-wide statements. Fiduciary activities are not included because the resources of these funds are not available to support the State's own programs.

The government-wide statements contain both short-term and long-term information about the State's financial position and assist in assessing the State's economic condition at the end of each fiscal year. The State prepares these statements using the "flow of economic resources" measurement focus and the accrual basis of accounting. This basically means that the methods utilized to prepare these statements are similar to those used by most private sector businesses in preparing their financial statements. They take into account all financial activity connected with the reported fiscal year including revenues, expenses, transfers, sales or acquisitions of capital assets, and any other activity affecting or possibly affecting the financial condition of the State, even if cash involved has not been received or paid.

The government-wide financial statements present two statements:

The *Statement of Net Position* presents a snapshot of both the primary government's and its component units' assets and liabilities and deferred outflows and deferred inflows, as of the date of this report, with the difference between the assets and deferred outflows, and liabilities and deferred inflows reported as "net position". Over time, increases or decreases in the primary government's net position may serve as an indicator as to whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents the reported year's financial activity and hence, the reason(s) for the changes in net position included on the Statement of Net Position. All changes in financial activities are recognized as soon as the underlying event(s) giving rise to the changes occur, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will not result in cash flows until future fiscal periods. This statement also presents the relationship between the State's major expenditure functions and the associated sources of program revenues associated with each expenditure function.

Both of the above financial statements segregate Vermont's financial activity into three categories: governmental activities, business-type activities, and discretely presented component unit activities. The governmental activities and business-type activities are combined to report on what is termed *primary government activities* which are separate and distinct from the *component units' activities* of the discretely presented component units.

Primary Government Activities

Governmental Activities – The financial activities reported in this section generally represent those services (functions) normally performed by a government entity. These activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. The governmental activities include public education, general government, public health services, legal and judiciary services, natural resources, public safety, regulatory services, social services, and public transportation. Taxes, grants, and intergovernmental revenues are the main sources of funding for these activities.

Business-Type Activities – These business-type activities of the State include the operations of Vermont's enterprise activities. For financial reporting purposes, these activities are classified as either major or non-major, depending upon their financial size as compared to each other and to the group as a whole. Activities categorized as major include the Unemployment Compensation Trust Fund program, Liquor Control, and the State Lottery Commission. Activities reported as non-major include the Federal Surplus Property Program, publishing Vermont Life magazine, making equipment loans to municipalities, and several other activities. Both major and non-major activities normally recover all or a portion of their costs through user fees and charges to the external consumers of their goods and services, much like a private business.

Component Units' Activities

Discretely Presented Component Units – These are legally separate (incorporated) entities for which the primary government has the ability to impose its will on the entity, receive a benefit from activities of the entity, or could receive a financial burden due to the activities of the entity. The State's discretely presented component units are presented in the aggregate in the government-wide statements. This aggregate total consists of four major and five non-major component units. This categorization is determined by the entity's relative significance to the State. Additional information or financial statements for each of these individual component units can be obtained from their respective administrative offices. Addresses and additional information about the State's component units are presented in Note I to the financial statements.

Blended Component Units – The State has no blended component units.

Included with the basic financial statements are two schedules (pages 46 and 50) that reconcile the amounts reported on the governmental fund financial statements (modified accrual basis of accounting) with governmental activities (accrual basis of accounting) on the government-wide statements. The following summarizes some of the differences in modified accrual and accrual accounting:

- Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund statements.
- Certain revenues that are earned, but not available, are reported as revenues of governmental activities, but are reported as unavailable revenue on the governmental fund statements.
- Unless currently due and payable, long-term liabilities, such as capital lease obligations, compensated absences, net pension and other postemployment benefit obligations, and bonds and notes payable appear as liabilities in the government-wide statements but are not reported in the governmental fund statements.
- Internal service funds are reported primarily as governmental activities, but reported as proprietary funds in the fund financial statements.
- Capital outlay spending results in recording capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements. Payments of bond and note principal results in a reduction in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Net position balances are allocated as *net investment in capital assets* (capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds and notes attributable to those assets) *restricted net position* (those with constraints placed on their use by external sources of imposed by law through constitutional provision or enabling legislation) and *unrestricted net position* (the net amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not meet any of the above restrictions).

The notes to the basic financial statements provide additional information that is integral to understanding the data provided in the government-wide and fund financial statements.

2) Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Similar to other state and local governments, Vermont uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus and report on the State's activities in more detail than the government-wide statements. All of the funds of the State have been divided into three categories for reporting purposes: governmental, proprietary, and fiduciary. For governmental activities, the governmental funds financial statements indicate how these services are financed in the short-term as opposed to the government-wide statements, which present a long-term view of the State's finances.

In accordance with GASB Statement No. 34, the focus of governmental fund financial statements has shifted from fund types to reporting on the most significant funds of the State, or major funds. Accordingly, the governmental and proprietary funds are divided into major and non-major categories as required by the Governmental Accounting Standards Board. For the governmental and proprietary funds, the major funds are reported in individual columns in the fund financial statements while the non-major funds are presented in a consolidated column in the fund financial statements. Combining schedules or statements in the Other Supplementary Information section present detailed non-major fund activity. Fiduciary funds are reported by fiduciary type (pension and other postemployment benefit trusts, investment trusts, private purpose trusts and agency funds) with combining schedules or statements for the individual pension, other postemployment benefit, and agency funds presented in the Other Supplementary Information section.

The three categories of funds are Governmental Funds, Proprietary Funds, and Fiduciary Funds. It is important to note that these fund categories use different accounting methods and should be interpreted differently as described below. Following is a brief overview of these three major categories of funds.

Governmental Funds
Most of the basic services provided by the State are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as the balances of resources available at the end of the fiscal year. This approach uses the "flow of current financial resources" measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of the State's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the time period focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Schedules reconciling the governmental funds' Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances to their respective government-wide statements are provided on the pages immediately following each governmental fund financial statement to facilitate this comparison.

The State reports twenty governmental funds of which six are classified as "major" governmental funds. These major funds are the General Fund, Transportation Fund, Education Fund, Special Fund, Federal Revenue Fund and Global Commitment Fund. Each major fund is presented in a separate column in the Governmental Funds' *Balance Sheet* and in the *Statement of Revenues, Expenditures, and Changes in Fund Balance*. The "non-major" governmental funds include the Fish and Wildlife Fund, two capital projects funds, two debt service funds, and nine permanent funds and are presented in one consolidated column in the governmental fund statements. Combining and individual non-major governmental fund statements are reported in the Other Supplementary Information section of this report.

Fund balance (the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources) is classified as nonspendable, restricted and unrestricted (commited, assigned or unassigned).

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or various special revenue funds. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund and each special revenue fund. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with the approved budgets. These schedules can be found as part of the required supplementary information section of this report.

The governmental funds' financial statements immediately follow the government-wide financial statements.

Proprietary Funds
This category of funds includes enterprise funds (business-type) and internal service funds. These funds report activities that operate much like those of commercial enterprises. These funds' financial reports include a *Statement of Net Position;* a *Statement of Revenues, Expenses and Changes in Net Position*; and a *Statement of Cash Flows*.

Enterprise funds provide the same type of information as the business-type activities section in the government-wide financial statements, only in more detail and at the fund level. Like the government-wide financial statements, enterprise fund financial statements use the accrual basis of accounting. Enterprise funds account for services provided to the general public, government, and non-State government entities. They normally derive their revenue by charging user fees in order to cover the costs of their services.

The State reports nine enterprise funds of which three are reported as major funds in separate columns on the proprietary fund statements. These three are the Unemployment Compensation Fund, the Liquor Control Fund, and the Vermont Lottery Commission. The other six enterprise funds are reported as "non-major funds" and are consolidated into one column on the proprietary fund statements.

Internal service funds are used to report activity that provides goods and services to other funds, departments, or agencies of the primary government and its component units, or to other governments on a cost reimbursement basis. These funds provide communication and information technology, facilities and property management, fleet management, printing, risk management and insurance services. The internal service fund activities are allocated proportionately between the governmental activities (predominately) and the business-type activities in the government-wide statements based on the benefit of the services provided to these activities. The reconciliation between the government-wide financial statements for business-type activities and the proprietary fund statements is presented at the end of the proprietary fund financial statements.

The State reports twenty-four internal service funds, which are reported in one consolidated column entitled "Governmental Activities – Total Internal Service Funds" on the Proprietary Funds Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and Statement of Cash Flows.

The proprietary funds' financial statements immediately follow the governmental fund financial statements. Combining non-major enterprise and combining internal service fund statements may be found in the Other Supplementary Information section of this report.

Fiduciary Funds
The fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units, or other funds. Fiduciary funds are excluded from the government-wide financial statements because the State cannot use these assets to finance its operations. The fiduciary funds use the accrual basis of accounting.

The State's fiduciary funds are divided into the following four basic categories: Pension and Other Postemployment Benefit Trust Funds (includes three separate defined benefit pension plans, three separate defined contribution pension plans, two defined benefit other postemployment benefit plans, and one defined contribution other postemployment benefit plan); an Investment Trust Fund (which reports only the external portion of the Vermont Pension Investment Committee investment pool); a Private Purpose Trust Fund (which reports only the Unclaimed Property Fund); and Agency Funds (nine agency funds which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals). These funds' financial reports include a *Statement of Fiduciary Net Position;* and a *Statement of Changes in Fiduciary Net Position*.

The fiduciary funds financial statements can be found immediately following the proprietary funds financial statements. Individual pension and other postemployment benefit trust funds, and agency funds financial statements are reported in the Other Supplementary Information section of this report.

3) Discretely Presented Component Units' Financial Statements
As mentioned previously, the State has included the net position and activities of four major component units in individual columns and five non-major component units in a single column on the statements. The component units' financial statements can be found immediately after the fiduciary funds. Combining individual non-major component units' financial statements can be found in Other Supplementary Information section of this report.

4) Notes to the Financial Statements
The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and the fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities. The notes also explain some of the information contained in

the financial statements and present in more detail than is practical in the financial statements.

The notes include a summary of significant accounting policies; additional information regarding the reconciliation of government-wide and fund financial statements; discussions on stewardship, compliance and accountability; detail notes on all activities and funds; and other information. The notes to the financial statements can be found immediately following the component units' financial statements.

Required Supplementary Information Other Than MD&A
The basic financial statements are followed by a section of required supplementary information. This section includes:

- The Schedule of Changes in Net Pension Liability and Related Ratios, a Schedule of Investment Returns, a Schedule of Employer and Nonemployer Contributions, and a Schedule of the State's Proportionate Share of the Net Pension Liability for the three defined benefit pension trust are included in the required supplementary information section. Also, this section includes the Schedule of Funding Progress and the Schedule of Employer Contributions for the other postemployment benefit plans.

- Schedules for the General Fund and budgeted Special Revenue Funds comparing their original budgeted amounts; final budgeted amounts; actual inflows, outflows, and balances stated on the budgetary basis; and variances between the final budgeted amounts and actual amounts presented on a budgetary basis. See Note III. A. for additional information regarding the budgetary process, including the budgetary basis.

- Notes to Required Supplementary Information include a schedule reconciling the statutory fund balance presented on a budgetary basis to the fund balance prepared on a modified accrual basis as presented in the governmental fund financial statements for the general fund and each budgeted special revenue fund, as well as additional information regarding the budgetary process.

Other Supplementary Information
Combining Financial Statements
The combining fund financial statements referred to earlier in connection with non-major funds and non-major component units are presented following the Required Supplementary Information section. The total columns of these combining financial statements carry to the applicable fund financial statement. These combining statements include the following:

- Non-major governmental funds
- Non-major proprietary (enterprise) funds
- Internal service funds
- Fiduciary funds (including individual pension and other postemployment benefit trust funds, and agency funds)
- Non-major component units

Statistical Section
A statistical section containing information regarding financial trends, revenue capacity, and debt capacity, as well as operating, economic and demographic information is presented immediately following the combining financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position
The following primary government condensed financial statement information is derived from the State's June 30, 2016 and 2015 government-wide Statement of Net Position. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

TABLE 2
State of Vermont's Net Position
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
ASSETS						
Current assets	$ 1,155.1	$ 1,112.1	$ 334.9	$ 252.0	$ 1,490.0	$ 1,364.1
Other assets	440.0	408.4	2.3	2.7	442.3	411.1
Capital assets	2,783.7	2,544.7	0.9	2.2	2,784.6	2,546.9
Total assets	4,378.8	4,065.2	338.1	256.9	4,716.9	4,322.1
DEFERRED OUTFLOWS						
Total deferred outflows	471.8	136.3	1.8	0.5	473.6	136.8
LIABILITIES						
Long-term liabilities	3,213.7	2,677.3	5.4	4.0	3,219.1	2,681.3
Other liabilities	571.2	589.5	25.1	24.8	596.3	614.3
Total liabilities	3,784.9	3,266.8	30.5	28.8	3,815.4	3,295.6
DEFERRED INFLOWS						
Total deferred inflows	135.9	181.2	0.7	0.9	136.6	182.1
NET POSITION						
Net Investment in capital assets	2,428.1	2,191.0	0.9	2.2	2,429.0	2,193.2
Restricted	639.4	612.7	302.4	221.9	941.8	834.6
Unrestricted (deficit)	(2,137.8)	(2,050.3)	5.5	3.6	(2,132.3)	(2,046.7)
Total net position	$ 929.7	$ 753.4	$ 308.8	$ 227.7	$ 1,238.5	$ 981.1

Totals may not add due to rounding.

The June 30, 2015 governmental activities balances have been restated for the inclusion of the assets and liabilities of the Vermont Telecommunication Authority (VTA). The VTA had been a discrete non-major component unit, which ceased operations on July 1, 2015, with the assets and liabilities of the organization turned over to the State (see Note V. F.).

The State's combined net position (governmental and business-type activities) totals $1.2 billion at the end of fiscal year 2016, as shown in Table 2. Approximately $2.4 billion of the combined net position represents the State's investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets) less any related debt still outstanding that was used to acquire those assets. This net investment in capital assets represents resources used to provide services to citizens, and therefore is not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Capital assets increased by $237.7 million primarily due to the addition of the Waterbury State Office Complex buildings ($124 million), and a new Department of Health lab building ($40 million).

An additional portion of the primary government's net position (76 percent) represents resources that are subject to external restrictions on how they may be used. This increase of $107.2 million is primarily a result of additional amounts that are restricted for unemployment compensation ($80.5 million), capital projects ($27.2 million) and natural resources ($19.5 million) offset by decreases general government ($10.5 million) and transportation ($4.1 million).

Internally imposed designations of resources are not presented as restricted net position. The remaining balance of unrestricted net position is a deficit of $2.132 billion. The governmental activities' negative unrestricted net position balance is mainly the result of three actions: 1) long-term debt issued by the State for municipal, non-profit or component unit capital purposes, $210.4 million outstanding at June 30, 2016, that does not result in a governmental activities' capital asset, 2) the amount of net position that is restricted for various purposes, and 3) the net Pension and OPEB liabilities (see Note IV. G. 4.).

Current assets increased by $125.9 million primarily due to increase in cash and cash equivalents ($194.2 million) and offset by decreases in federal grants receivable ($61.3 million) and investments ($18.6 million). Long term liabilities increased by $537.8 million primarily due to the $498.7 million increase in net pension liabilities and net other postemployment benefit obligations.

At the end of fiscal year 2016, the State reported positive total net position balances in its governmental activities, its business-type activities, and its discretely presented component units.

Changes in Net Position

Governmental type activities had an overall increase in net position of $176.3 million, or 23.4%, resulting from an operating profit of $147.8 million and by transfers in from business-type activities of $28.5 million, primarily from the Vermont Lottery Commission ($26.4 million) to support education. The $11.6 million increase in revenues over 2015 was due to a $73.9 million increase in general revenues, offset by a $62.3 million decrease in program revenues.

Business-type activities had an overall increase in net position of $81.1 million or 35.6%, resulting from an operating profit of $109.6 million offset by transfers out of $28.5 million to governmental activities, primarily from the Lottery ($26.4 million) to support education. Revenues increased from 2015, primarily due to an increase in revenue in the Vermont Lottery Commission ($12.5 million) and investment income in the Unemployment Compensation Trust Fund ($1.6 million).

The primary government condensed financial statement information is derived from the State's June 30, 2016 and 2015 government-wide Statement of Changes in Net Position. Although the government-wide statements include discretely presented component unit activity, the component unit activity has not been included in these condensed statements.

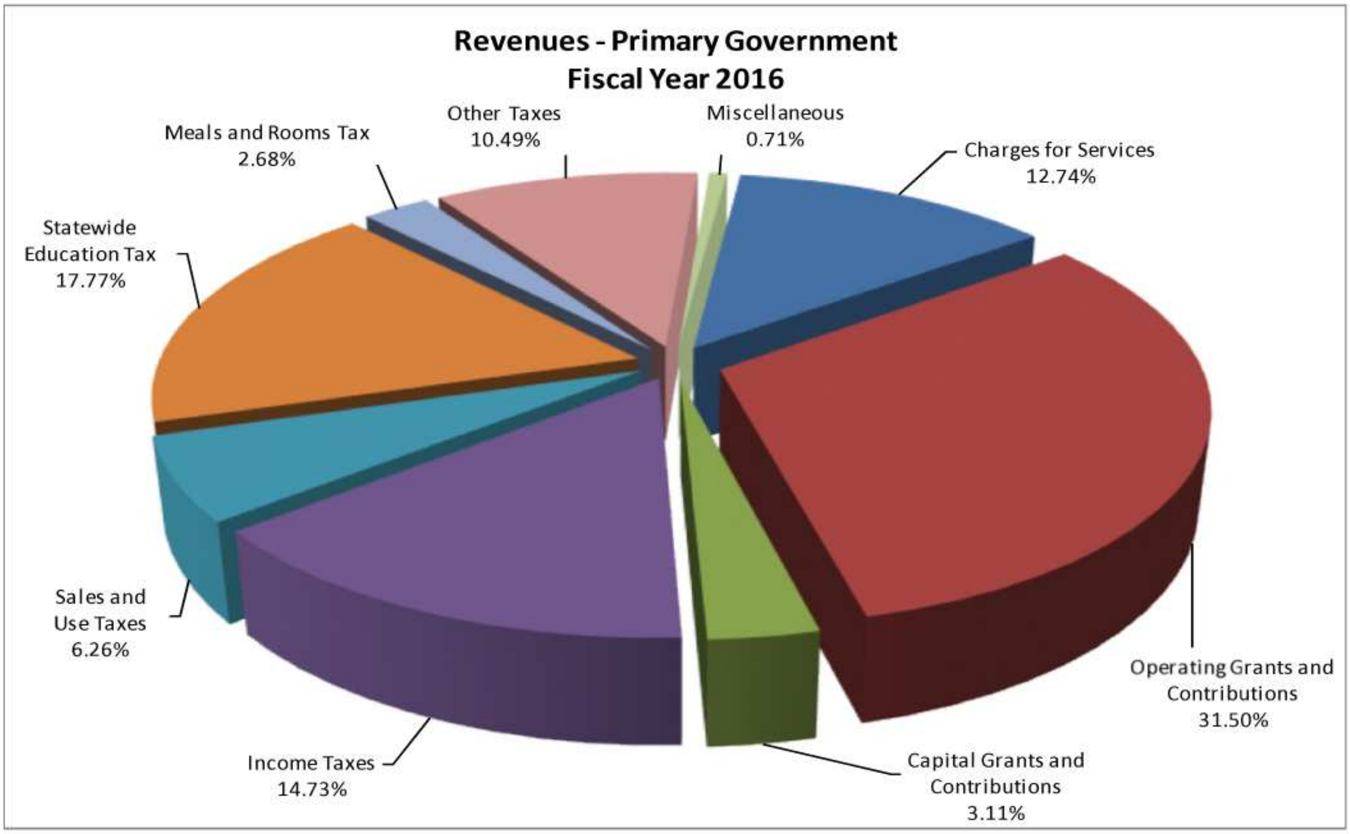
(Table on next page.)

TABLE 3
State of Vermont's Changes in Net Position
(In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues						
Charges for services	$ 415.8	$ 413.8	$ 337.3	$ 323.5	$ 753.1	$ 737.3
Operating grants and contributions	1,861.8	1,895.1	1.0	1.4	1,862.8	1,896.5
Capital grants and contributions	183.7	214.7	-	-	183.7	214.7
General revenues						
Income taxes	871.2	847.0	-	-	871.2	847.0
Sales and use taxes	370.4	366.7	-	-	370.4	366.7
Statewide education tax						
Gross tax assessed	1,209.3	1,173.7	-	-	1,209.3	1,173.7
Income sensitivity adjustment	(158.6)	(151.4)	-	-	(158.6)	(151.4)
Meals and rooms tax	158.3	152.3	-	-	158.3	152.3
Other taxes	620.5	610.7	-	-	620.5	610.7
Miscellaneous	36.9	35.1	5.3	3.7	42.2	38.8
Total revenues	5,569.3	5,557.7	343.6	328.6	5,912.9	5,886.3
Expenses						
General government	86.5	132.7	-	-	86.5	132.7
Protection to persons and property	340.2	347.5	-	-	340.2	347.5
Human services	2,411.4	2,446.0	-	-	2,411.4	2,446.0
Labor	30.6	31.1	-	-	30.6	31.1
General educaton	1,941.1	1,881.4	-	-	1,941.1	1,881.4
Natural resources	109.6	104.4	-	-	109.6	104.4
Commerce and community development	53.5	38.0	-	-	53.5	38.0
Transportation	430.2	433.6	-	-	430.2	433.6
Interest on long-term debt	18.4	17.1	-	-	18.4	17.1
Unemployment compensation	-	-	69.4	77.2	69.4	77.2
Lottery commission	-	-	97.7	88.8	97.7	88.8
Liquor control	-	-	59.5	57.2	59.5	57.2
Other business type expenses	-	-	7.4	7.1	7.4	7.1
Total expenses	5,421.5	5,431.8	234.0	230.3	5,655.5	5,662.1
Change in net position						
before transfers	147.8	125.9	109.6	98.3	257.4	224.2
Transfers net in (out)	28.5	24.6	(28.5)	(24.6)	-	-
Change in net position	176.3	150.5	81.1	73.7	257.4	224.2
Net position, beginning of year, as restated	753.4	602.9	227.7	154.0	981.1	756.9
Net position, end of year	$ 929.7	$ 753.4	$ 308.8	$ 227.7	$ 1,238.5	$ 981.1

Totals may not add due to rounding.

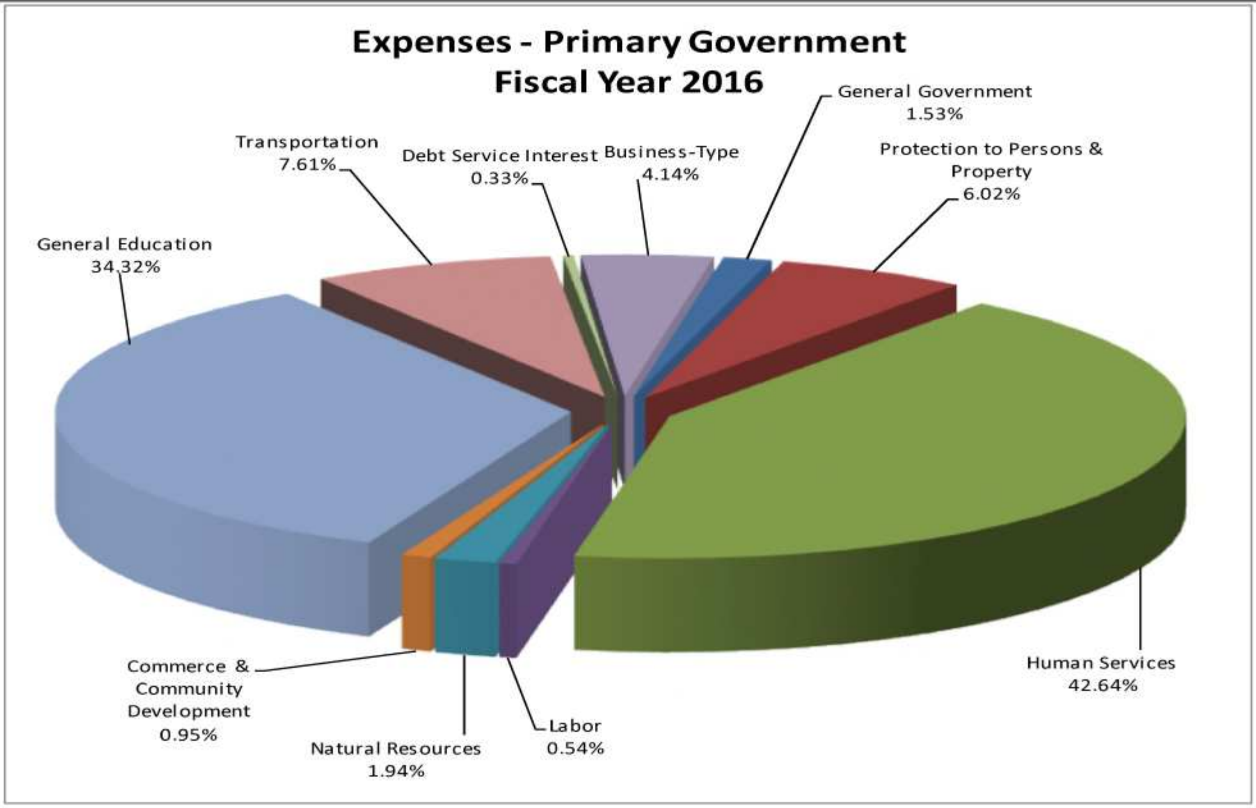
The following graph illustrates the revenues of Vermont's primary government for fiscal year 2016. Approximately 34.6 percent comes from other entities and governments in the form of operating and capital grants and contributions (primarily federal grant revenues). An additional 32.5 percent of total revenues are generated by the statewide education and income taxes.



Percentages may not equal 100% due to rounding.

The following graph illustrates the percentages of total primary government expenses for fiscal year 2016. The largest category of expense is for human services (42.64 percent of total expense) which provides for Vermont's low-income, elderly care services and persons in state custody in the form of grants for selected services such as food stamps, health care, housing and child protective services. The second most significant category of expense is for general education (34.32 percent of total expenses) which provides for Vermont's support to secondary and higher education.

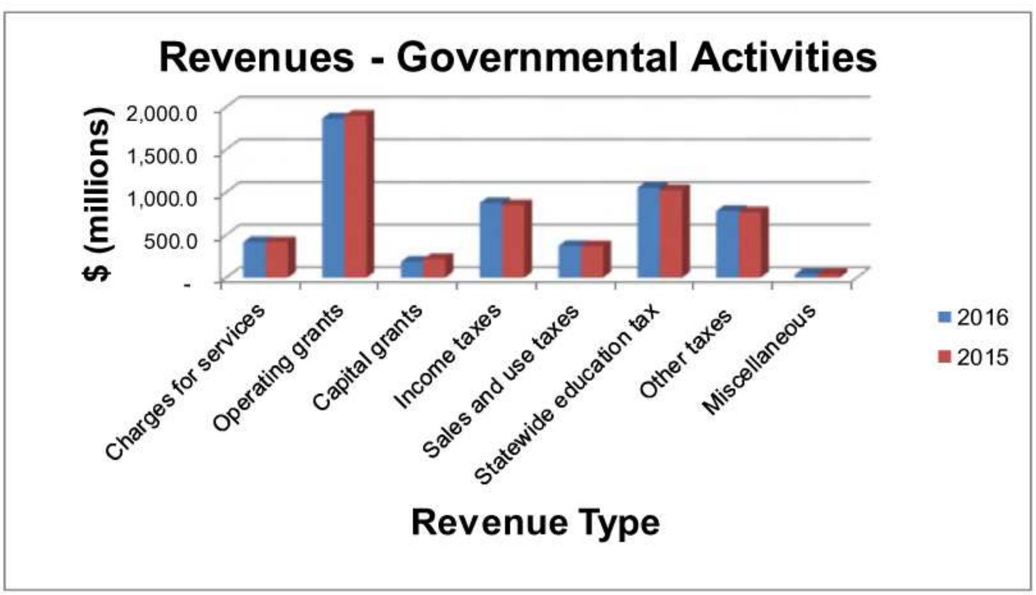
(Chart on next page.)



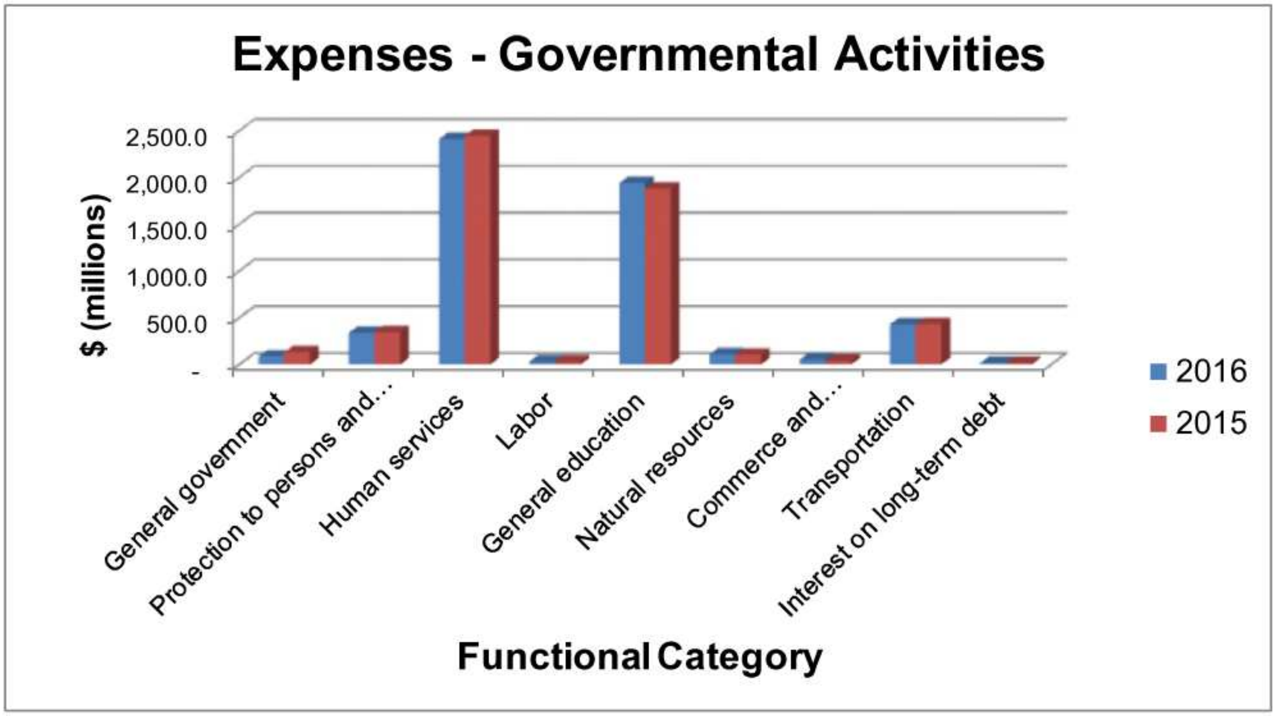
Percentages may not equal 100% due to rounding.

Governmental Activities

In 2016, governmental activities' revenues exceeded expenses by $147.8 million and received transfers of $28.5 million from business activities, resulting in a $176.3 million (or 23.4 percent) increase in net position. Revenues increased by $11.6 million, primarily due to an increase in taxes ($72.1 million) offset by a decrease in grants and contributions ($64.3 million). Spending increased for commerce and community development ($15.5 million) and general education ($59.7 million) while human services decreased ($34.6 million) and general government ($46.2 million). The following chart provides a two-year comparison of governmental activities revenues:



The following chart provides a two-year comparison of governmental activities expenses:

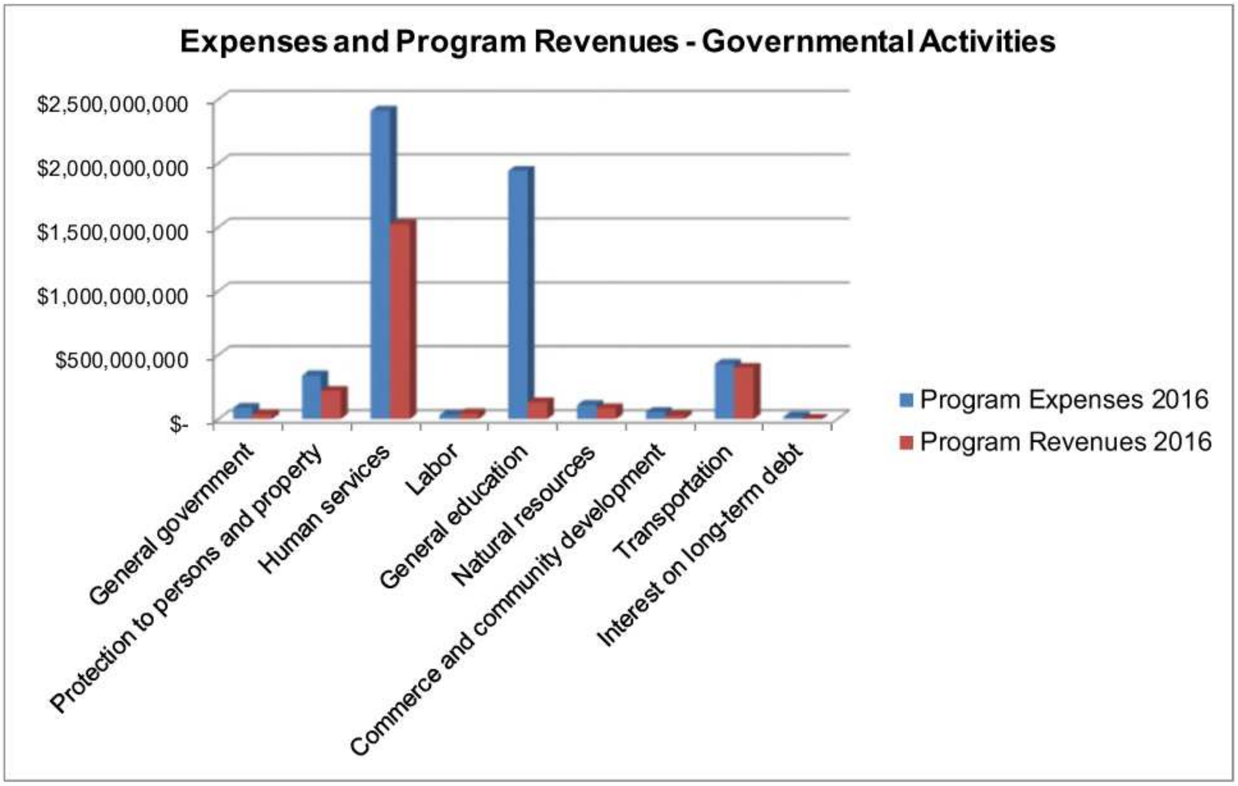


The following table shows to what extent program revenues (charges for services and grants and contributions) covered program expenses. For fiscal year 2016, program revenues covered $2.5 billion or 45.4 percent of $5.4 billion in program expenses. The remaining $3.0 billion or 54.6 percent of program expenses was paid for by state taxes and other general revenue.

TABLE 4
Net Program Revenue
For the years ended June 30, 2016 and 2015

	Program Expenses	Less Program Revenues	Net Program (Expense)/Revenue		Program Revenues as a Percentage of Program Expenses	
	2016	2016	2016	2015	2016	2015
Functions/programs						
General government	$ 86,493,352	$ 35,904,254	$ (50,589,098)	$ (94,283,185)	41.5%	29.0%
Protection to persons and property	340,173,481	220,013,233	(120,160,248)	(124,056,504)	64.7%	64.3%
Human services	2,411,444,690	1,521,427,529	(890,017,161)	(900,249,400)	63.1%	63.2%
Labor	30,561,804	43,684,250	13,122,446	10,570,795	142.9%	134.0%
General education	1,941,059,889	129,249,427	(1,811,810,462)	(1,755,962,338)	6.7%	6.7%
Natural resources	109,593,121	83,379,637	(26,213,484)	(35,883,032)	76.1%	65.6%
Commerce and community development	53,533,071	26,297,923	(27,235,148)	(20,011,226)	49.1%	47.4%
Transportation	430,221,180	400,170,349	(30,050,831)	27,628,638	93.0%	106.4%
Interest on long-term debt	18,388,825	1,155,256	(17,233,569)	(15,962,597)	6.3%	6.8%
	$ 5,421,469,413	$ 2,461,281,858	$ (2,960,187,555)	$ (2,908,208,849)	45.4%	46.5%

The following chart displays program expenses and program revenues for 2016:



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

As noted earlier, the State of Vermont uses fund accounting to account for its ongoing operations and to demonstrate compliance with finance-related legal requirements imposed by both legislative mandates as well as externally imposed restrictions.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, *unrestricted (unassigned, assigned, and committed) fund balances* may serve as a useful measure of a government's net resources available for spending. At the end of fiscal year 2016, the unrestricted fund balance is 25.6 percent of the total fund balance of governmental funds, which is available for spending on governmental programs at the State's discretion in the coming year. The remainder of this fund balance is restricted or nonspendable to indicate that it is not available for appropriation, such as the principal of the State's Permanent Funds, and other items that are nonspendable, such as advances and long-term receivables. At the end of fiscal year 2016, the State's governmental funds reported combined fund balances of $1,005.8 million, an increase of $68.5 million in comparison with the prior fiscal year.

The General Fund is the chief operating fund of the State. At the end of fiscal year 2016, the General Fund's total fund balance was $139.3 million and the unassigned portion of this fund balance was $18.9 million. Its remaining fund balance was made up of nonspendable amounts totaling $114.6 million, and assigned amounts totaling $5.9 million. During 2016, total revenues and other financing sources exceeded total expenditures and other financing uses by $6.3 million.

General Fund revenues increased by $38.4 million, or 2.8%, primarily due to a $43.6 million increase in personal income and meals and room taxes due to an improved economy, a decrease in other revenues due a one-time $5 million litigation settlement in fiscal year 2015. Expenditures decreased by $25.2 million or 3.0%, primarily due to a $34.3 million decrease in human services (reduced grant expenditures), and offset by an increase in protection to persons and property of $5.3 million (personnel costs and third-party contractors), and an increase in general education expense of $2.3 million (education grants). The General Fund's statutory reserve for budgetary stabilization increased by $1.9 million to $71.3 million, the maximum allowed by statute.

The Transportation Fund's total fund balance was $19 million at June 30, 2016, a decrease of $8.2 million from the fiscal year 2015's ending total fund balance. Transportation Fund revenues decreased by $56.9 million, primarily due to a decrease in Federal Highway Administration grants ($38.0 million), and Federal Emergency Management Agency (FEMA) grants ($13 million). The Transportation Fund's statutory reserve for budget stabilization increased by $200 thousand to $12.8 million, the maximum allowed by statute.

The Education Fund at June 30, 2016 had a total fund balance of $81.7 million, which represents a $7.9 million increase over fiscal year 2015's ending balance. General education costs increased by $43.6 million, primarily due to an increase in grants to school districts ($42.0 million). This increase was funded by increases in the statewide education tax ($28.4 million); sales and use taxes ($1 million); purchase and use taxes ($1 million) and transfer in from the General Fund and Lottery Fund ($10 million). The Education Fund's statutory reserve for budget stabilization increased $568,305 to $32.6 million, the maximum allowed by statute.

The Special Fund's total fund balance at the end of fiscal year 2016 was $109.6 million, an increase of 31.2 percent in comparison with 2015. The Special Fund's total fund balance is comprised of $11 million as restricted, $98.6 million as committed and assigned. Special Fund revenues increased $18.9 million or 3.37 percent, and expenditures decreased $29.1 million or 9.5 percent. The decrease in expenditures was primarily in the protection to persons and property function ($12.8 million), of which $10 million was in the Energy Efficiency Utility program's grants, and a decrease in general government expenditures ($18.2 million) primarily related to reduction in 3rd party contractor costs. This resulted in a increase in "excess of revenues over expenditures" of $48 million from last fiscal year. Fiscal year 2016 transfers out to other funds exceeded transfers in from other funds by $274 million. The Special Fund received transfers in of $59.2 million, consisting of federal fund monies for the earned income tax credit ($19.5 million); matching funds for school based Medicare services ($26.1 million); the Next Generation Fund ($3.0 million); and Department of Children & Families ($3.4 million). Transfers out of $333.2 million consisted primarily of payments for a portion of the State's payment for Medicaid coverage under the Global Commitment to Health Medicaid waiver ($283 million).

The Federal Revenue Fund accounts for all federal grants except those federal grants that are awarded to the Agency of Transportation (which are included in the Transportation Fund), the Global Commitment to Health Medicaid waiver (which are included in the Global Commitment Fund) and the Department of Fish and Wildlife (which are included in the Fish and Wildlife Fund, a non-major governmental fund). The Federal Revenue Fund's federal grant revenues for fiscal year 2016 were $771.7 million, a decrease of $50.1 million over fiscal year 2015's federal grant revenues. Expenditures were $722.9 million, a decrease of $49.8 million over 2015. The Federal Revenue Fund's total fund balance at the end of fiscal year 2016 ($453.3 million) was a increase of $17.1 million as compared to the total fund balance at the end of fiscal year 2015.

The fiscal year 2016 ending total fund balance for the Global Commitment Fund was $105.9 million. Expenditures of $1,520.8 million exceeded revenues and net transfers in of $1,512.5 million by $8.3 million. The primary changes were an increase in federal grants of $41.2 million and an increase in human services expenses of $82.4 million. See Note I, Section E for more information regarding these funds.

Proprietary Funds

The State's *enterprise funds* provide the same type of information presented in the business-type activities in the government-wide financial statements, but in more detail. The Unemployment Compensation Trust Fund's total net position balance increased from $221.9 million at June 30, 2015 to $302.4 million at June 30, 2016, an increase of $80.5 million in one year. Expenditures from the fund for unemployment benefits decreased by $7.8 million over 2015.

The State's *internal service funds'* total net position at June 30, 2016 was $13 million, an $16.4 million improvement from June 30, 2015. This improvement is primarily due to an improvement in net position of $10.7 million in the medical insurance fund due to a rate increase in FY 2016, as well as an increase in the highway garage fund $1.7 million due to a reduction in cost of supplies and parts. It should be remembered that the internal service funds' activity has been combined with the governmental funds' activity in the government-wide financial statements.

Fiduciary Funds
The State's fiduciary funds account for resources held for the benefit of parties outside State government. The Pension and Other Postemployment Benefit Trust Funds' net position decreased by 1.31% to $3.92 billion at June 30, 2016. For more information regarding the State's retirement and other postemployment benefit plans, see Note IV. G. 4. to the financial statements. The Unclaimed Property Fund's total assets balance at June 30, 2016 is $12.5 million, and total liabilities balance is $8.2 million, including the escheat property claims liability estimated at $8.1 million, resulting in ending net position of $4.3 million. The Investment Trust Fund's was closed in fiscal year 2016. Net position of all fiduciary funds are reported as held in trust for particular purposes.

GENERAL FUND BUDGET HIGHLIGHTS

The State ended fiscal year 2016 with General Fund revenues of $1.412 billion, expenditures of $1.094 billion, and net transfers to other funds of $323.4 million (non-GAAP budgetary basis). This was a $31.6 million increase in revenues over the previous year. The fiscal year 2016 General Fund consensus revenue forecast initially approved by the Emergency Board in July, 2015 was subsequently revised downward by the Emergency Board at their January 2016 meeting. Compared to target, the revenues were 1.46 percent below the July, 2015 revenue forecast of $1,433 million, and 1.13 percent below the January, 2015 revised revenue forecast of $1,429 million. Personal income tax receipts were $13.8 million below target, corporate income tax receipts were $12.8 million above target, and meals and rooms tax receipts were $1.4 million below target. Inheritance and estate taxes were $8 million below target due to an unusually large estate tax filing in FY2015. The General Fund results allowed for a fully funded General Fund Budget Stabilization Reserve of $71.3 million, representing the statutory maximum of 5 percent of the prior year appropriations level.

PRIMARY GOVERNMENT'S CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
The State investment in capital assets (net of accumulated depreciation) for its governmental and business-type activities as of June 30, 2016 was $2.785 billion, a total increase of 9.3 percent (Table 4). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The fiscal year 2015 governmental activities capital assets has been restated to include the capital assets of the Vermont Telecommunications Authority (a non-major discrete component unit in fiscal year 2015) which ceased operations effective July 1, 2015, and the assets and liabilities transferred to the State.

Many component unit, municipal and non-profit organizations' capital construction projects and acquisitions are financed by the State, but the assets are actually owned by these other entities. Therefore, these capital assets are recorded on the financial statements of those entities and not on the books of the State. But the general obligation bonds issued by the State to finance these capital assets are reported as a liability of the State's governmental activities. At June 30, 2016, the State had $210.4 million of general obligation bonds outstanding related to capital assets of these other entities. Additional information on the State's capital assets can be found in Note IV. E. of the notes to the financial statements.

TABLE 4
Capital Assets at Fiscal Year End
(Net of depreciation, amounts in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2016	2015	2016	2015	2016	2015
Land, Land Use Rights, and Land Improvements	$ 146,361	$ 129,341	$ -	$ -	$ 146,361	$ 129,341
Construction in Progress	576,571	645,125	283	1,595	576,854	646,720
Works of Art	136	136	-	-	136	136
Buildings and Improvements	432,273	284,234	2	3	432,275	284,237
Machinery and Equipment	277,061	211,150	574	568	277,635	211,718
Infrastructure	1,351,261	1,274,679	-	-	1,351,261	1,274,679
Totals, as restated	$ 2,783,662	$ 2,544,665	$ 859	$ 2,166	$ 2,784,521	$ 2,546,831

Totals may not add due to rounding.

Debt Administration
Bonded Indebtedness
The State has no constitutional or other limit on its power to issue obligations or to incur debt besides borrowing only for public purposes. In 1990, the General Assembly created the Capital Debt Affordability Advisory Committee and made it responsible for overseeing the long-term capital planning for the State. Annually, the General Assembly passes appropriations for capital purposes and authorizes the State Treasurer to issue general obligation bonds to provide the financing for all or a portion of the appropriations. Bonds are backed by the full faith and credit of the State, including the State's power to levy additional taxes to ensure repayment of the debt.

During fiscal year 2016, the State of Vermont's outstanding general and special obligation bond debt increased by approximately $40.3 million. This increase can be accounted for by the issuance of $115.6 million of general obligation bonds offset by the redemption of $48.5 million in general obligation bonds, $1.5 million in special obligation bonds, and defeasance of $25.3 million in general obligation bonds. Additional information on the State's bonded debt is contained in Note IV. G. 1. of the notes to the financial statements.

The State's general obligation bond ratings are as follows: Aaa by Moody's Investor Service (since February 2007), AA+ by Standard & Poor's Ratings Services (since September 2000), and AAA by Fitch Ratings (since April 2010).

ECONOMIC OUTLOOK

The Vermont near-term economic outlook includes a Vermont economy, along with the US economy, continuing to make forward progress toward a more "normal" state of affairs for output, jobs, and income growth. The consensus revenue forecast in July 2016 reflected a small increase in General Fund revenue expectations for fiscal year 2017 versus the January 2016 consensus revenue forecast. However, the July 2016 consensus revenue forecast for the General Fund was an estimated $21.0 million below the estimated revenues that were expected by the measures changes enacted by the 2016 Vermont General Assembly.

Adjusting for the additional revenues from the fee and other changes enacted by the 2016 Vermont General Assembly, the July 2016 consensus revenue forecast for all funds represented a downgrade in revenue expectations of 1.4 percent in fiscal year 2017 relative to fiscal expectations as of the close of the 2016 session of the Vermont General Assembly in May of 2016. For the General Fund, the July 2016 consensus forecast for fiscal year 2017 after adjustment for fee and other changes represented a 1.4 percent downgrade. For the

Transportation and Education Funds for fiscal year 2017, the July 2016 consensus forecast was downgraded by 1.2 percent and 1.7 percent, respectively. Year-over-year revenue growth for fiscal year 2017 is forecasted to be 4.8 percent in the General Fund, and 4.9 percent in the Transportation Fund.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State of Vermont's finances for all of Vermont's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the State's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

State of Vermont
Department of Finance and Management
109 State Street, 5th Floor
Pavilion Building
Montpelier, Vermont 05609-0401

The State's component units issue their own separately issued financial statements. Their statements may be obtained by directly contacting them at the addresses found in Note I to the State's financial statements.

BASIC FINANCIAL STATEMENTS

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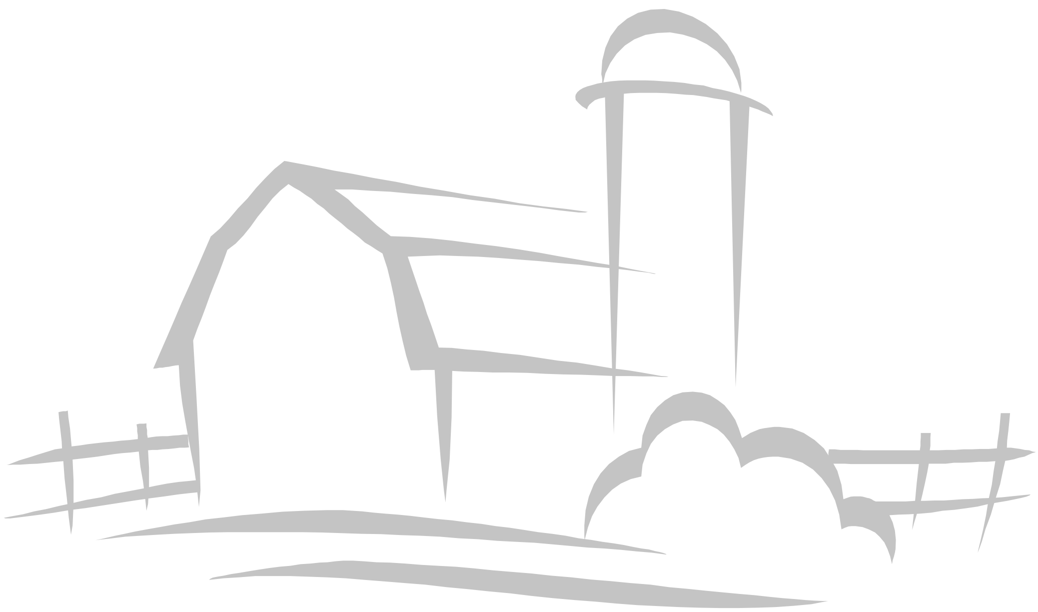

Vermont

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Discretely Presented
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Current Assets				
Cash and cash equivalents	$ 642,636,004	$ 283,206,128	$ 925,842,132	$ 174,836,397
Taxes receivable, net	123,112,527	39,686,888	162,799,415	-
Loans and notes receivable, net	20,316,411	589,916	20,906,327	249,717,093
Federal grants receivable	235,271,864	518,970	235,790,834	12,180,572
Other receivables, net	74,049,006	6,527,385	80,576,391	72,728,270
Investments	40,129,013	-	40,129,013	196,106,714
Inventories	2,384,316	8,123,760	10,508,076	2,951,648
Internal balances	3,707,640	(3,707,640)	-	-
Receivable from component units	7,579,328	-	7,579,328	-
Other current assets	5,927,149	18,383	5,945,532	14,303,717
Total current assets	1,155,113,258	334,963,790	1,490,077,048	722,824,411
Noncurrent Assets				
Cash and equivalents	-	407,836	407,836	163,068,298
Taxes receivable	130,521,529	-	130,521,529	-
Other receivables	41,550,654	7,931	41,558,585	-
Loans and notes receivable	267,933,526	617,609	268,551,135	1,983,550,400
Investments	-	1,220,842	1,220,842	793,639,603
Other noncurrent assets	-	-	-	25,460,300
Capital assets				
Land	146,360,735	-	146,360,735	44,483,150
Construction in progress	576,570,552	282,506	576,853,058	81,230,083
Works of art	136,003	-	136,003	-
Capital assets being depreciated:				
Infrastructure	2,360,918,189	-	2,360,918,189	38,412,108
Property, plant and equipment	1,125,448,772	2,343,134	1,127,791,906	1,295,140,024
Less accumulated depreciation	(1,425,772,570)	(1,766,596)	(1,427,539,166)	(676,992,264)
Total capital assets, net of depreciation	2,783,661,681	859,044	2,784,520,725	782,273,101
Total noncurrent assets	3,223,667,390	3,113,262	3,226,780,652	3,747,991,702
Total assets	4,378,780,648	338,077,052	4,716,857,700	4,470,816,113
DEFERRED OUTFLOW OF RESOURCES				
Loss on refunding of bonds payable	9,848,778	-	9,848,778	27,013,877
Pension related outflows	461,914,468	1,848,511	463,762,979	3,674,581
Interest rate swap	-	-	-	18,338,264
Total deferred outflow of resources	471,763,246	1,848,511	473,611,757	49,026,722

The accompanying notes are an integral part of these financial statements.

	Primary Government			Discretely Presented
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current Liabilities				
Accounts payable and other current liabilities	334,544,256	8,781,351	343,325,607	94,319,033
Income tax refunds payable	81,681,410	-	81,681,410	-
Payable to primary government	-	-	-	7,579,328
Intergovernmental payable - due to federal government	28,919,149	-	28,919,149	-
Accrued interest payable	9,983,318	-	9,983,318	6,292,861
Current portion of long-term liabilities	115,324,273	6,174,364	121,498,637	270,397,207
Unearned revenue	772,516	10,099,075	10,871,591	71,804,946
Total current liabilities	571,224,922	25,054,790	596,279,712	450,393,375
Long-term Liabilities				
Lottery prize awards payable	-	834,481	834,481	-
Bonds, notes and leases payable	648,730,339	-	648,730,339	2,569,513,952
Compensated absences	4,046,563	27,965	4,074,528	-
Claims and judgments	33,942,421	-	33,942,421	-
Net pension liabilities	1,717,898,492	4,545,559	1,722,444,051	9,108,532
Net other postemployment benefits obligation	794,399,394	-	794,399,394	261,955,052
Other long-term liabilities	14,672,797	-	14,672,797	47,432,217
Total long-term liabilities	3,213,690,006	5,408,005	3,219,098,011	2,888,009,753
Total liabilities	3,784,914,928	30,462,795	3,815,377,723	3,338,403,128
DEFERRED INFLOW OF RESOURCES				
Gain on refunding of bonds payable	-	-	-	34,896,000
Service concession arrangement	-	-	-	9,012,000
Pension related inflows	135,884,783	730,212	136,614,995	1,747,443
Total deferred inflow of resources	135,884,783	730,212	136,614,995	45,655,443
NET POSITION				
Net investment in capital assets	2,428,106,664	859,044	2,428,965,708	165,954,969
Restricted for				
Unemployment compensation	-	302,400,402	302,400,402	-
Funds held in permanent investments				
Expendable	310,737	-	310,737	-
Nonexpendable	7,416,453	-	7,416,453	-
General government	1,627,734	-	1,627,734	12,432,470
Protection to persons and property	14,867,221	-	14,867,221	-
Human services	182,577,703	-	182,577,703	-
Labor	4,602,349	-	4,602,349	-
General education	2,713,741	-	2,713,741	516,267,584
Natural resources	365,309,551	-	365,309,551	-
Commerce and community development	4,222,231	-	4,222,231	321,523,703
Transportation	405,505	-	405,505	-
Capital projects	52,182,856	-	52,182,856	-
Debt service	3,209,802	-	3,209,802	-
Unrestricted (deficit)	(2,137,808,364)	5,473,110	(2,132,335,254)	119,605,538
Total net position	$ 929,744,183	$ 308,732,556	$ 1,238,476,739	$ 1,135,784,264

STATE OF VERMONT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
FUNCTIONS/PROGRAMS				
Primary Government				
Governmental activities				
General government	$ 86,493,352	$ 34,407,420	$ 1,496,834	$ -
Protection to persons and property	340,173,481	168,908,084	51,105,149	-
Human services	2,411,444,690	27,871,223	1,493,556,306	-
Labor	30,561,804	22,475,518	21,208,732	-
General education	1,941,059,889	2,318,149	126,931,278	-
Natural resources	109,593,121	37,792,451	31,525,351	14,061,835
Commerce and community development	53,533,071	2,749,872	23,548,051	-
Transportation	430,221,180	119,229,933	111,276,405	169,664,011
Interest on long-term debt	18,388,825	-	1,155,256	-
Total governmental activities	5,421,469,413	415,752,650	1,861,803,362	183,725,846
Business-type activities				
Vermont Lottery Commission	97,688,479	124,263,888	-	-
Liquor Control	59,527,431	60,731,804	-	-
Unemployment Compensation	69,416,998	143,598,772	1,070,729	-
Other	7,447,015	8,669,670	-	-
Total business-type activities	234,079,923	337,264,134	1,070,729	-
Total primary government	$ 5,655,549,336	$ 753,016,784	$ 1,862,874,091	$ 183,725,846
Component Units				
Vermont Student Assistance Corporation	$ 78,835,000	$ 49,297,000	$ 32,615,000	$ -
University of Vermont and State Agricultural College	680,844,000	415,663,000	244,621,000	1,580,000
Vermont State Colleges	191,998,826	119,452,606	60,092,468	3,244,124
Vermont Housing Finance Agency	22,136,000	987,000	-	-
Other	72,784,569	47,889,724	15,072,061	5,579,586
Total component units	$ 1,046,598,395	$ 633,289,330	$ 352,400,529	$ 10,403,710

General Revenues
- Taxes
  - Personal and corporate income
  - Sales and use
  - Meals and rooms
  - Purchase and use
  - Motor fuel
  - Statewide education
  - Other taxes
  - Total taxes
- Investment earnings
- Tobacco litigation settlement
- Additions to non-expendable endowments
- Miscellaneous

Transfers

Total general revenues and transfers

Changes in net position

Net Position - Beginning, as restated

Net Position - Ending

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Discretely
Governmental Activities	Business-type Activities	Total	Presented Component Units
$ (50,589,098)	$ -	$ (50,589,098)	$ -
(120,160,248)	-	(120,160,248)	-
(890,017,161)	-	(890,017,161)	-
13,122,446	-	13,122,446	-
(1,811,810,462)	-	(1,811,810,462)	-
(26,213,484)	-	(26,213,484)	-
(27,235,148)	-	(27,235,148)	-
(30,050,831)	-	(30,050,831)	-
(17,233,569)	-	(17,233,569)	-
(2,960,187,555)	-	(2,960,187,555)	-
-	26,575,409	26,575,409	-
-	1,204,373	1,204,373	-
-	75,252,503	75,252,503	-
-	1,222,655	1,222,655	-
-	104,254,940	104,254,940	-
(2,960,187,555)	104,254,940	(2,855,932,615)	-
-	-	-	3,077,000
-	-	-	(18,980,000)
-	-	-	(9,209,628)
-	-	-	(21,149,000)
-	-	-	(4,243,198)
-	-	-	(50,504,826)
871,211,701	-	871,211,701	-
370,373,899	-	370,373,899	-
158,298,075	-	158,298,075	-
100,166,120	-	100,166,120	-
38,161,111	-	38,161,111	-
1,050,701,693	-	1,050,701,693	-
482,200,655	-	482,200,655	9,554,840
3,071,113,254	-	3,071,113,254	9,554,840
990,005	5,282,134	6,272,139	32,429,410
34,992,819	-	34,992,819	-
-	-	-	462,918
951,189	8,029	959,218	12,024,712
28,509,593	(28,509,593)	-	-
3,136,556,860	(23,219,430)	3,113,337,430	54,471,880
176,369,305	81,035,510	257,404,815	3,967,054
753,374,878	227,697,046	981,071,924	1,131,817,210
$ 929,744,183	$ 308,732,556	$ 1,238,476,739	$ 1,135,784,264

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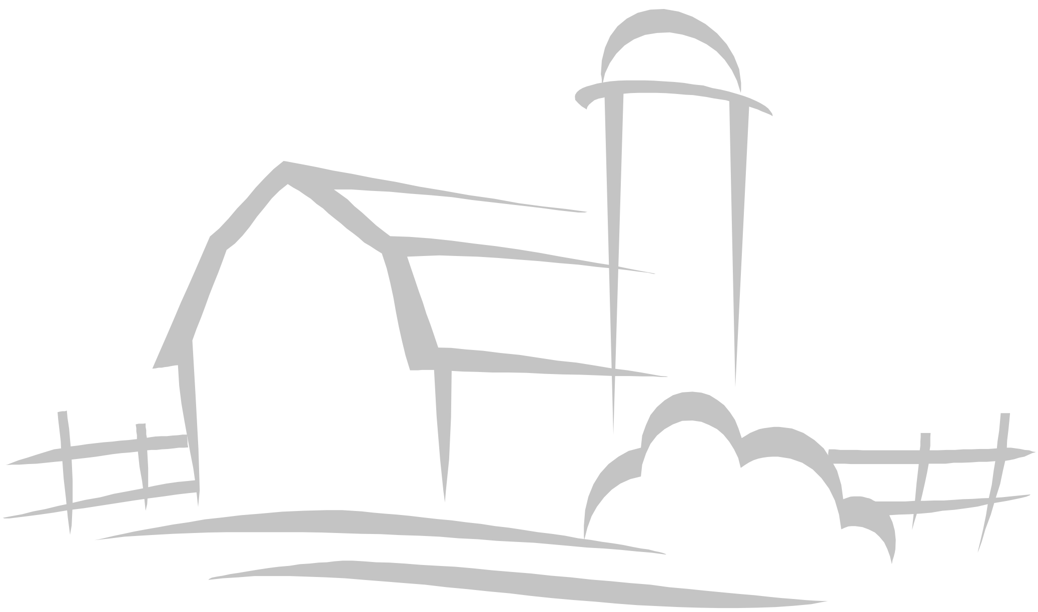

Vermont

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Transportation Fund	Education Fund	Special Fund
ASSETS				
Cash and cash equivalents	$ 15,732,254	$ 7,210,638	$ 82,691,681	$ 145,660,713
Investments	-	-	-	3,607,859
Receivables				
Taxes receivable, net	222,948,073	9,035,249	16,763,061	4,808,863
Accrued interest receivable	149,787	27,534	-	1,285
Notes and loans receivable	20,647,692	323,736	-	5,032,229
Other receivables, net	8,214,388	8,512,125	-	30,157,915
Intergovernmental receivables - federal government, net	-	46,851,106	-	-
Due from other funds	709,058	148,902	9	4,411,092
Due from component units	2,896,306	-	-	933,104
Interfund receivable	88,193,661	-	-	-
Advances to other funds	300,275	-	-	-
Advances to component units	5,500,000	-	-	17,145
Total assets	$ 365,291,494	$ 72,109,290	$ 99,454,751	$ 194,630,205
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 21,413,320	$ 36,154,780	$ 13,086,627	$ 17,862,171
Accrued liabilities	14,873,508	7,343,781	184,905	7,180,607
Retainage payable	679,628	59,944	-	592,669
Due to other funds	33,392,445	2,679,571	23,328	42,467,078
Due to component units	-	-	-	-
Intergovernmental payable - federal government	-	-	-	-
Tax refunds payable	24,313,435	-	78,270	16,215
Unearned revenue	-	166,987	-	126,893
Total liabilities	94,672,336	46,405,063	13,373,130	68,245,633
DEFERRED INFLOW OF RESOURCES				
Unavailable revenue	131,327,052	6,732,457	4,401,858	16,779,175
Total deferred inflow of resources	131,327,052	6,732,457	4,401,858	16,779,175
FUND BALANCES				
Nonspendable				
Advances	5,800,275	-	-	-
Long-term receivables	108,760,185	-	-	-
Permanent Fund principal	-	-	-	-
Restricted	-	405,505	-	10,983,904
Committed	-	18,566,265	81,679,763	92,882,955
Assigned	5,863,318	-	-	5,738,538
Unassigned	18,868,328	-	-	-
Total fund balances	139,292,106	18,971,770	81,679,763	109,605,397
Total liabilities, deferred inflows and fund balances	$ 365,291,494	$ 72,109,290	$ 99,454,751	$ 194,630,205

The accompanying notes are an integral part of these financial statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ 171,836,631	$ 87,041,405	$ 73,533,543	$ -	$ 583,706,865
-	-	36,521,154	-	40,129,013
-	-	78,810	-	253,634,056
5,472	-	-	-	184,078
261,395,073	-	-	-	287,398,730
2,208,218	34,406,835	109,482	-	83,608,963
101,203,978	87,140,151	76,629	-	235,271,864
819,076	60,244,030	21,434	(64,876,659)	1,476,942
-	-	-	-	3,829,410
-	-	-	-	88,193,661
-	-	-	-	300,275
-	-	-	-	5,517,145
$ 537,468,448	$ 268,832,421	$ 110,341,052	$ (64,876,659)	$ 1,583,251,002
$ 41,919,567	$ 140,524,107	$ 5,907,279	$ -	$ 276,867,851
8,408,432	5,098,302	848,067	-	43,937,602
866,131	413,023	2,890,104	-	5,501,499
6,449,244	414,378	1,793,693	(64,876,659)	22,343,078
-	-	1,767,227	-	1,767,227
25,973,314	2,945,835	-	-	28,919,149
-	-	-	-	24,407,920
85,785	-	-	-	379,665
83,702,473	149,395,645	13,206,370	(64,876,659)	404,123,991
489,236	13,569,926	7,079	-	173,306,783
489,236	13,569,926	7,079	-	173,306,783
-	-	-	-	5,800,275
-	-	-	-	108,760,185
-	-	7,416,453	-	7,416,453
453,276,739	105,866,850	55,703,395	-	626,236,393
-	-	34,007,755	-	227,136,738
-	-	-	-	11,601,856
-	-	-	-	18,868,328
453,276,739	105,866,850	97,127,603	-	1,005,820,228
$ 537,468,448	$ 268,832,421	$ 110,341,052	$ (64,876,659)	$ 1,583,251,002

STATE OF VERMONT
RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO THE STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

Total fund balances from previous page	$ 1,005,820,228
Capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds [1]	2,727,871,948
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to certain funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position	13,041,542
Amounts presented in the statement of net position relating to, but not in fund balances due to a different basis of accounting [1]	507,670,310
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore are not reported in the funds [1]	(3,324,659,845)
Net position of governmental activities	$ 929,744,183

[1] Additional information on these amounts can be found in Note II. A.

The accompanying notes are an integral part of these financial statements.

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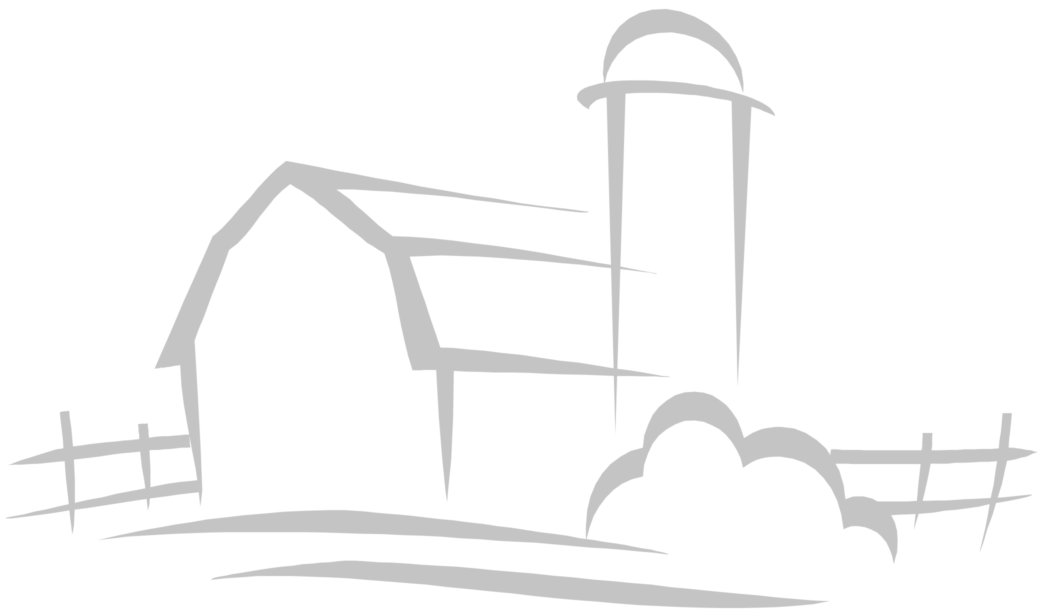

Vermont

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Transportation Fund	Education Fund	Special Fund
REVENUES				
Taxes				
Personal income tax	$ 744,836,629	$ -	$ -	$ 3,924,313
Corporate income tax	119,616,012	-	-	2,132,022
Sales and use tax	239,754,930	-	129,085,843	562,907
Meals and rooms tax	154,530,189	-	-	1,059,499
Motor fuels tax	-	35,779,984	-	1,482,291
Purchase and use tax	-	66,776,925	33,389,195	-
Statewide education tax	-	-	1,050,701,693	-
Other taxes	132,874,724	61,362,598	1,108,018	286,433,386
Earnings of departments				
Fees	22,988,091	21,091,291	-	63,395,402
Rents and leases	-	1,970,348	-	3,318,486
Sales of services	2,831,177	64,046	-	9,726,637
Federal grants	-	280,940,416	-	-
Fines, forfeits and penalties	4,873,102	5,052,605	-	8,352,011
Investment income	553,429	74,790	168,801	436,849
Licenses				
Business	1,069,750	612,658	-	20,198,566
Non-business	68,998	87,674,446	-	2,767,103
Special assessments	-	-	-	81,788,538
Other revenues	6,391,189	2,311,881	-	92,520,962
Total revenues	1,430,388,220	563,711,988	1,214,453,550	578,098,972
EXPENDITURES				
General government	77,099,307	4,166,941	9,857,845	19,938,234
Protection to persons and property	133,480,662	22,734,494	-	125,583,264
Human services	367,375,164	-	3,651,725	63,298,826
Labor	3,256,821	-	-	3,652,081
General education	181,097,686	-	1,532,404,669	18,743,834
Natural resources	26,685,423	-	-	36,027,355
Commerce and community development	14,701,469	-	-	9,516,493
Transportation	-	538,183,571	-	1,406,443
Capital outlay	-	-	-	-
Debt service	-	-	-	-
Total expenditures	803,696,532	565,085,006	1,545,914,239	278,166,530
Excess of revenues over (under) expenditures	626,691,688	(1,373,018)	(331,460,689)	299,932,442
OTHER FINANCING SOURCES (USES)				
Proceeds from the sale of bonds	-	-	-	-
Premium on sale of bonds	2,727,443	-	-	-
Proceeds from the sale of refunding bonds	25,564,735	-	-	155,265
Payment to bond escrow agent	(28,292,178)	-	-	-
Transfers in	40,702,919	151,045	339,382,166	59,165,274
Transfers out	(661,142,144)	(7,009,790)	-	(333,185,639)
Total other financing sources (uses)	(620,439,225)	(6,858,745)	339,382,166	(273,865,100)
Net change in fund balances	6,252,463	(8,231,763)	7,921,477	26,067,342
Fund balances, July 1 as restated	133,039,643	27,203,533	73,758,286	83,538,055
Fund balances, June 30	$ 139,292,106	$ 18,971,770	$ 81,679,763	$ 109,605,397

The accompanying notes are an integral part of these statements.

Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Eliminations	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 748,760,942
-	-	-	-	121,748,034
-	-	-	-	369,403,680
-	-	-	-	155,589,688
-	-	898,836	-	38,161,111
-	-	-	-	100,166,120
-	-	-	-	1,050,701,693
-	-	-	-	481,778,726
-	-	153,748	-	107,628,532
-	-	58,703	-	5,347,537
-	431	1,790	-	12,624,081
771,673,873	960,361,992	8,659,980	-	2,021,636,261
-	-	21,246	-	18,298,964
524,734	-	946,733	-	2,705,336
-	-	1,688	-	21,882,662
-	-	7,524,626	-	98,035,173
-	-	-	-	81,788,538
2,335,320	13,503,657	866,525	-	117,929,534
774,533,927	973,866,080	19,133,875	-	5,554,186,612
1,181,308	-	-	-	112,243,635
52,130,705	99,396	-	-	334,028,521
475,133,495	1,515,324,154	25,000	-	2,424,808,364
22,649,995	-	-	-	29,558,897
126,534,542	5,335,467	1,520,355	-	1,865,636,553
22,169,914	-	17,611,570	-	102,494,262
23,144,390	-	-	-	47,362,352
-	-	-	-	539,590,014
-	-	85,121,375	-	85,121,375
-	-	73,283,162	-	73,283,162
722,944,349	1,520,759,017	177,561,462	-	5,614,127,135
51,589,578	(546,892,937)	(158,427,587)	-	(59,940,523)
-	-	89,860,000	-	89,860,000
-	-	9,398,753	-	12,126,196
-	-	-	-	25,720,000
-	-	-	-	(28,292,178)
4,178,058	564,771,792	89,621,182	(1,068,827,343)	29,145,093
(38,673,798)	(26,141,689)	(2,836,787)	1,068,827,343	(162,504)
(34,495,740)	538,630,103	186,043,148	-	128,396,607
17,093,838	(8,262,834)	27,615,561	-	68,456,084
436,182,901	114,129,684	69,512,042	-	937,364,144
$ 453,276,739	$ 105,866,850	$ 97,127,603	$ -	$ 1,005,820,228

STATE OF VERMONT
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Total net change in fund balances from the previous page	**$**	**68,456,084**
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period (net of internal service funds) [1]		238,095,788
Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position [1]		78,297,178
Bond proceeds provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the statement of net position [1]		(121,925,241)
Receivables in the governmental funds that are not available to provide current financial resources are not reported as revenues in the governmental funds		20,657,793
Estimated personal income tax refunds that are not due and payable are not reported as expenditures in the governmental funds		17,160
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds [1]		(123,478,033)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities		16,248,576
Total changes in net position of governmental activities as reported on the statement of activities	**$**	**176,369,305**

[1] Additional information on these amounts can be found in Note II. B.

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
ASSETS			
Current Assets			
Cash and cash equivalents	$ 272,942,849	$ 2,768,110	$ 4,573,781
Receivables			
Taxes receivable, net of allowance for uncollectibles	38,969,306	-	-
Accounts receivable, net of allowance for uncollectibles	1,897,561	1,928,408	2,316,858
Loans receivable	-	-	-
Accrued interest receivable	-	-	-
Due from other funds	-	55,144	5,509
Intergovernmental receivables - federal government	518,970	-	-
Inventories, at cost	-	7,052,433	815,521
Prepaid expenses	-	-	-
Total current assets	314,328,686	11,804,095	7,711,669
Restricted and Noncurrent Assets			
Cash - subscription reserve fund	-	-	-
Investments	-	-	1,220,842
Loans receivable	-	-	-
Accounts receivable - subcriptions	-	-	-
Imprest cash and change fund - advances	-	75	300,000
Total restricted assets	-	75	1,520,842
Capital Assets			
Land	-	-	-
Construction in progress	-	282,506	-
Works of art	-	-	-
Capital assets being depreciated/amortized:			
Machinery, equipment and buildings	-	2,084,920	252,405
Less accumulated depreciation	-	(1,523,680)	(237,107)
Total capital assets, net of depreciation	-	843,746	15,298
Total restricted and capital assets	-	843,821	1,536,140
Total assets	314,328,686	12,647,916	9,247,809
DEFERRED OUTFLOW OF RESOURCES			
Pension related outflows	-	1,203,941	421,275
Total deferred outflow of resources	-	1,203,941	421,275
LIABILITIES			
Current Liabilities			
Accounts payable	-	4,420,958	793,005
Accrued salaries and benefits	-	438,539	149,157
Claims payable	1,402,929	-	-
Due to lottery winners	-	-	166,438
Due to agents	-	355,872	-
Due to other funds	72,024	301,750	8,800
Interfund payable	-	-	-
Future and unclaimed prizes payable	-	-	5,738,190
Unearned revenue	9,316,928	-	209,311
Capital leases payable	-	-	-
Other current liabilities	1,136,403	-	-
Total current liabilities	11,928,284	5,517,119	7,064,901
Long-term Liabilities			
Unexpired subscriptions	-	-	-
Due to lottery winners	-	-	834,481
Claims payable	-	-	-
Advances from other funds	-	75	300,000
Capital leases payable	-	-	-
Net pension liabilities	-	2,957,954	1,049,203
Other noncurrent liabilities	-	27,577	-
Total long-term liabilities	-	2,985,606	2,183,684
Total liabilities	11,928,284	8,502,725	9,248,585
DEFERRED INFLOW OF RESOURCES			
Pension related inflows	-	468,328	191,321
Total deferred inflow of resources	-	468,328	191,321
NET POSITION			
Net investment in capital assets	-	843,746	15,298
Restricted for unemployment compensation benefits	302,400,402	-	-
Unrestricted (deficit)	-	4,037,058	213,880
Total net position	$ 302,400,402	$ 4,880,804	$ 229,178

The accompanying notes are an integral part of these statements.

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
$ 2,621,113	$ -	$ 282,905,853	$ 58,929,139
717,582	-	39,686,888	-
374,273	-	6,517,100	17,298,681
589,916	-	589,916	232,327
10,285	-	10,285	-
83,189	(72,024)	71,818	22,321,717
-	-	518,970	-
255,806	-	8,123,760	2,384,316
18,383	-	18,383	5,927,149
4,670,547	(72,024)	338,442,973	107,093,329
407,836	-	407,836	-
-	-	1,220,842	-
617,609	-	617,609	618,880
7,931	-	7,931	-
200	-	300,275	-
1,033,576	-	2,554,493	618,880
-	-	-	26,156
-	-	282,506	3,517,400
-	-	-	8,200
5,809	-	2,343,134	113,175,337
(5,809)	-	(1,766,596)	(60,937,360)
-	-	859,044	55,789,733
1,033,576	-	3,413,537	56,408,613
5,704,123	(72,024)	341,856,510	163,501,942
223,295	-	1,848,511	-
223,295	-	1,848,511	-
296,454	-	5,510,417	12,146,535
57,770	-	645,466	4,722,277
-	-	1,402,929	24,581,183
-	-	166,438	-
-	-	355,872	-
2,996	(72,024)	313,546	1,179,226
3,077,091	-	3,077,091	62,050,470
-	-	5,738,190	-
165,000	-	9,691,239	392,851
-	-	-	557,368
-	-	1,136,403	128,055
3,599,311	(72,024)	28,037,591	105,757,965
407,836	-	407,836	-
-	-	834,481	-
-	-	-	33,942,421
200	-	300,275	-
-	-	-	10,357,101
538,402	-	4,545,559	-
388	-	27,965	491,459
946,826	-	6,116,116	44,790,981
4,546,137	(72,024)	34,153,707	150,548,946
70,563	-	730,212	-
70,563	-	730,212	-
-	-	859,044	44,875,264
-	-	302,400,402	-
1,310,718	-	5,561,656	(31,922,268)
$ 1,310,718	$ -	308,821,102	$ 12,952,996

Adjustment to reflect the consolidation of internal service activities related to enterprise funds.................................	(88,546)
Net Position - Business-type Activities........	$ 308,732,556

STATE OF VERMONT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
OPERATING REVENUES			
Charges for sales and services	$ 143,598,772	$ 55,208,649	$ -
Ticket sales	-	-	124,261,840
Rental income	-	-	-
License fees	-	1,744,040	-
Federal donated properties	-	-	-
Advertising revenues	-	-	-
Other operating revenues	-	3,779,115	2,048
Total operating revenues	143,598,772	60,731,804	124,263,888
OPERATING EXPENSES			
Cost of sales and services	-	45,209,618	94,843,670
Claims expenses	69,416,998	-	-
Salaries and benefits	-	4,251,881	1,567,170
Insurance premium expenses	-	33,385	4,345
Contractual services	-	1,109,289	136,319
Repairs and maintenance	-	90,801	5,123
Depreciation	-	204,409	1,604
Rental expenses	-	68,724	200,010
Utilities and property management	-	349,335	104,232
Non-capital equipment purchased	-	1,428,897	9,876
Promotions and advertising	-	61,011	549,199
Administration expenses	-	90,319	33,192
Supplies and parts	-	154,958	27,456
Distribution and postage	-	34,775	17,023
Travel	-	35,133	15,607
Other operating expenses	-	6,539,391	184,441
Total operating expenses	69,416,998	59,661,926	97,699,267
Operating income (loss)	74,181,774	1,069,878	26,564,621
NONOPERATING REVENUES (EXPENSES)			
Federal grants	1,070,729	-	-
Gain on disposal of capital assets	-	8,029	-
Investment income	5,202,171	-	52,090
Total nonoperating revenues (expenses)	6,272,900	8,029	52,090
Income (loss) before other revenues, expenses, gains, losses, and transfers	80,454,674	1,077,907	26,616,711
OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFERS			
Insurance recoveries	-	-	-
Capital contributions	-	-	-
Transfers in	-	-	-
Transfers out	-	(1,208,417)	(26,415,176)
Total other revenues, expenses, gains, losses, and transfers	-	(1,208,417)	(26,415,176)
Changes in net position	80,454,674	(130,510)	201,535
Total net position, July 1	221,945,728	5,011,314	27,643
Total net position June 30	$ 302,400,402	$ 4,880,804	$ 229,178

The accompanying notes are an integral part of these financial statements.

Business-type Activities-Enterprise Funds			Governmental Activities
Non-major Enterprise Funds	Eliminations	Total Enterprise Funds	Total Internal Service Funds
$ 5,331,262	$ -	$ 204,138,683	$ 329,501,733
-	-	124,261,840	-
-	-	-	21,686,005
-	-	1,744,040	-
2,947,443	-	2,947,443	-
329,584	-	329,584	-
61,381	-	3,842,544	2,297,985
8,669,670	-	337,264,134	353,485,723
6,159,786	-	146,213,074	41,954,041
-	-	69,416,998	170,530,882
685,175	-	6,504,226	45,122,875
5,999	-	43,729	5,468,088
203,765	-	1,449,373	18,792,396
1,362	-	97,286	5,439,961
-	-	206,013	10,505,264
1,969	-	270,703	2,888,332
25,846	-	479,413	9,450,847
6,065	-	1,444,838	8,061,545
40,252	-	650,462	81,539
12,846	-	136,357	10,960,696
3,221	-	185,635	4,906,107
291,348	-	343,146	87,651
3,905	-	54,645	92,808
17,505	-	6,741,337	4,085,132
7,459,044	-	234,237,235	338,428,164
1,210,626	-	103,026,899	15,057,559
-	-	1,070,729	-
-	-	8,029	880,248
27,873	-	5,282,134	135,157
27,873	-	6,360,892	1,015,405
1,238,499	-	109,387,791	16,072,964
-	-	-	70,941
-	-	-	734,979
-	-	-	162,504
(886,000)	-	(28,509,593)	(635,500)
(886,000)	-	(28,509,593)	332,924
352,499	-	80,878,198	16,405,888
958,219	-	227,942,904	(3,452,892)
$ 1,310,718	$ -	$ 308,821,102	$ 12,952,996

Total change in net position reported above.........	$ 80,878,198
Consolidation adjustment of internal service activities related to enterprise funds.......	157,312
Change in net position - business type activities..	$ 81,035,510

STATE OF VERMONT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities-Enterprise Funds		
	Unemployment Compensation Trust Fund	Liquor Control Fund	Vermont Lottery Commission
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 143,239,066	$ 54,405,439	$ 123,958,005
Cash paid to suppliers for goods and services	-	(47,557,274)	(7,982,842)
Cash paid to employees for services	-	(4,192,332)	(1,575,249)
Cash paid for prizes and commissions	-	-	(87,619,639)
Cash paid to claimants	(69,875,744)	-	-
Cash paid for fees, operations and other	-	-	(184,441)
Other operating revenues	-	5,523,155	2,048
Other operating expenses	-	(6,539,391)	-
Total cash provided (used) by operating activities	73,363,322	1,639,597	26,597,882
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers in	-	-	-
Transfers out	-	(1,208,417)	(26,403,589)
Interfund loans and advances	-	-	-
Federal grants	1,103,878	-	-
Net cash provided (used) by noncapital financing activities	1,103,878	(1,208,417)	(26,403,589)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(216,154)	(13,769)
Payment of capital leases	-	-	-
Insurance recoveries	-	-	-
Proceeds from sale of capital assets	-	25,859	-
Net cash provided (used) by capital and related financing activities	-	(190,295)	(13,769)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	5,202,171	-	52,090
Proceeds from sales/maturities of investments	-	-	91,346
Proceeds from loan repayments	-	-	-
Lending payments	-	-	-
Net cash provided (used) by investing activities	5,202,171	-	143,436
Net increase (decrease) in cash and cash equivalents	79,669,371	240,885	323,960
Cash and cash equivalents, July 1	193,273,478	2,527,300	4,549,821
Cash and cash equivalents, June 30	$ 272,942,849	$ 2,768,185	$ 4,873,781
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	$ 74,181,774	$ 1,069,878	$ 26,564,621
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation and amortization	-	204,409	1,604
Impairment loss	-	1,312,659	-
(Increase) decrease in accounts/taxes receivable	(344,888)	(826,277)	(332,892)
(Increase) decrease in loans receivable	-	13,738	-
(Increase) decrease in due from other funds	-	1,544	-
(Increase) decrease in inventory	-	(493,606)	(99,548)
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in deferred outflows	-	(900,675)	(313,705)
Increase (decrease) in accounts payable	-	300,935	175,384
Increase (decrease) in accrued salaries and benefits	-	56,905	(1,975)
Increase (decrease) in claims payable	(471,246)	-	-
Increase (decrease) in due to lottery winners	-	-	(113,106)
Increase (decrease) in due to agents	-	59,493	-
Increase (decrease) in future and unclaimed prizes payable	-	-	380,244
Increase (decrease) in due to other funds	(14,818)	7,785	597
Increase (decrease) in unearned revenues	-	-	29,057
Increase (decrease) in other liabilities	12,500	(70,510)	(6,472)
Increase (decrease) in subscription reserves	-	-	-
Increase (decrease) in net pension liabilities	-	999,826	356,217
Increase (decrease) in deferred inflows	-	(96,507)	(42,144)
Total adjustments	(818,452)	569,719	33,261
Net cash provided (used) by operating activities	$ 73,363,322	$ 1,639,597	$ 26,597,882
Noncash investing, capital, and financing activities:			
Contributions of capital assets to/from other funds	-	-	-
Retirement of assets not fully depreciated	-	(17,828)	-
Fair market value of donated inventory sold	-	-	-
Donation of capital assets	-	-	-

NOTE: Total cash and cash equivalents at June 30 on the cash flow statement is equal to cash/cash equivalents, cash subscription reserve fund, and imprest cash on the Statement of Net Position.

The accompanying notes are an integral part of these financial statements.

Business-type Activities-Enterprise Funds		Governmental Activities
Non-major Enterprise Funds	Total Enterprise Funds	Total Internal Service Funds
$ 4,910,745	$ 326,513,255	$ 352,848,548
(3,776,541)	(59,316,657)	(102,098,689)
(680,275)	(6,447,856)	(44,974,354)
-	(87,619,639)	-
-	(69,875,744)	(168,836,426)
-	(184,441)	-
4,627	5,529,830	2,092,211
(9,904)	(6,549,295)	(1,979,226)
448,652	102,049,453	37,052,064
-	-	162,504
(886,000)	(28,498,006)	(635,500)
376,268	376,268	(6,953,611)
-	1,103,878	-
(509,732)	(27,017,860)	(7,426,607)
-	(229,923)	(11,675,074)
-	-	(537,722)
-	-	72,626
-	25,859	1,456,158
-	(204,064)	(10,684,012)
(953)	5,253,308	135,157
-	91,346	-
582,298	582,298	692,179
(228,951)	(228,951)	(100,356)
352,394	5,698,001	726,980
291,314	80,525,530	19,668,425
2,737,835	203,088,434	39,260,714
$ 3,029,149	$ 283,613,964	$ 58,929,139
$ 1,210,626	$ 103,026,899	$ 15,057,559
-	206,013	10,505,264
-	1,312,659	-
(750,212)	(2,254,269)	(3,240,243)
-	13,738	-
7,192	8,736	12,234,474
169,816	(423,338)	(131,172)
30,975	30,975	(2,568,762)
(156,088)	(1,370,468)	-
(19,702)	456,617	853,627
(9,209)	45,721	439,698
-	(471,246)	3,168,500
-	(113,106)	-
-	59,493	-
-	380,244	-
1,736	(4,700)	28,806
(179,824)	(150,767)	177,252
-	(64,482)	527,061
(24,614)	(24,614)	-
187,161	1,543,204	-
(19,205)	(157,856)	-
(761,974)	(977,446)	21,994,505
$ 448,652	$ 102,049,453	$ 37,052,064
-	-	659,595
-	(17,828)	(587,140)
2,947,443	2,947,443	134,811
-	-	75,384

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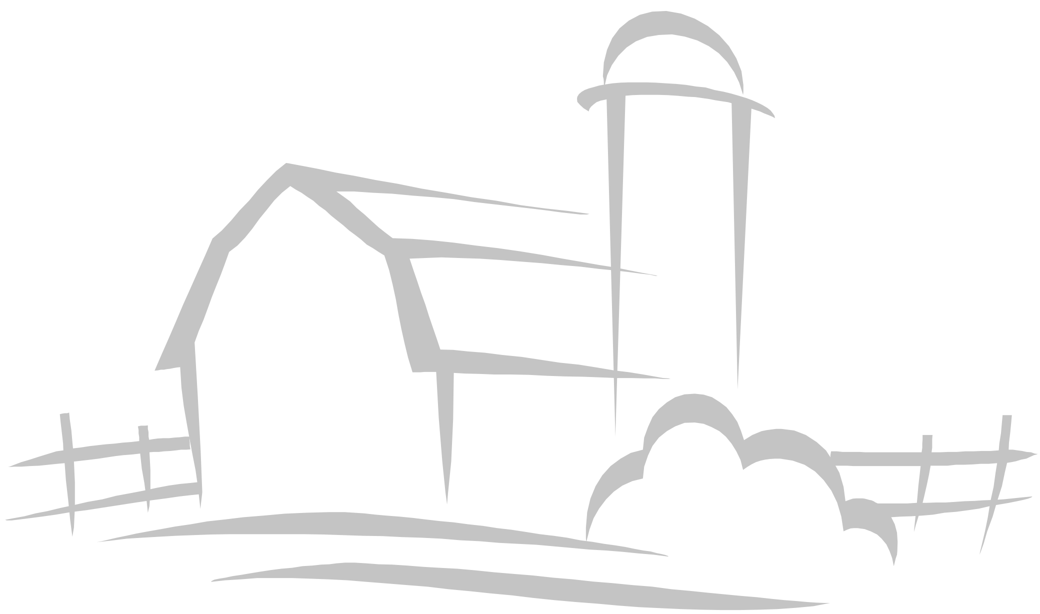

Vermont

FIDUCIARY FUNDS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund	Agency Funds
ASSETS				
Cash and cash equivalents	$ 54,493,195	$ -	$ 5,417,627	$ 7,370,690
Investments				
Fixed income	532,925,146	-	-	-
Equities	619,005,128	-	1,911,570	-
Mutual and commingled funds	2,369,960,914	-	-	-
Real estate and venture capital	406,833,355	-	-	-
Receivables:				
Taxes	-	-	-	1,339,775
Contributions - current	15,743,256	-	-	-
Contributions - non-current	6,809,013	-	-	-
Investments sold	120,788,798	-	-	-
Interest and dividends	389,240	-	-	-
Other	3,226,882	-	-	3,073,188
Prepaid expenses	171,221	-	-	-
Other assets	-	-	5,143,265	-
Capital assets:				
Capital assets being depreciated:				
Equipment	8,356,227	-	5,627	-
Less accumulated depreciation	(2,634,911)	-	(4,266)	-
Total capital assets, net of depreciation	5,721,316	-	1,361	-
Total assets	4,136,067,464	-	12,473,823	11,783,653
LIABILITIES				
Accounts payable	5,527,557	-	22,849	-
Accrued salaries and benefits	-	-	21,933	-
Claims payable	-	-	8,136,088	-
Investments purchased	185,817,166	-	-	-
Interest payable	60,956	-	-	-
Unearned revenue	331,548	-	-	-
Due to other funds	34,193	-	434	-
Interfund loans payable	23,059,216	-	-	6,884
Due to depositories	-	-	-	143,802
Intergovernmental payable - other governments	-	-	-	7,410,664
Amounts held in custody for others	-	-	-	2,545,826
Other liabilities	-	-	-	1,676,477
Total liabilities	214,830,636	-	8,181,304	$ 11,783,653
NET POSITION				
Restricted for employees' pension benefits	3,908,343,731	-	-	
Restricted for employees' other postemployment benefits	12,893,097	-	-	
Held in trust for individuals, organizations and other governments	-	-	4,292,519	
Net position held in trust for benefits and other purposes	$ 3,921,236,828	$ -	$ 4,292,519	

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Pension and Other Postemployment Benefits Trust Funds	Investment Trust Fund	Private Purpose Trust Fund Unclaimed Property Fund
ADDITIONS			
Contributions			
Employer - pension benefit	$ 71,952,136	$ -	$ -
Employer - healthcare benefit	32,522,691	-	-
Non-employer - pension benefit	73,225,064	-	-
Non-employer - healthcare benefit	16,434,423	-	-
Plan member	85,929,162	-	-
Transfers from non-state systems	103,062	-	-
Other revenues	3,722,805	-	-
Total contributions	283,889,343	-	-
Investment Income			
Net appreciation/(depreciation) in fair value of investments	173,799,601	-	-
Income from pooled investments	(159,329,848)	(6,600,493)	-
Dividends	29,536,615	-	-
Interest income	11,905,170	-	67,103
Other income	570,900	-	-
Total investment income	56,482,438	(6,600,493)	67,103
Less Investment Expenses			
Investment managers and consultants	11,288,954	185,599	-
Total investment expenses	11,288,954	185,599	-
Net investment income	45,193,484	(6,786,092)	67,103
Escheat property remittances	-	-	1,546,886
Total additions	329,082,827	(6,786,092)	1,613,989
DEDUCTIONS			
Retirement benefits	309,431,285	-	-
Other postemployment benefits	59,113,429	-	-
Refunds of contributions	6,550,752	-	-
Death claims	1,068,808	-	-
Depreciation	809,171	-	1,058
Operating expenses	4,227,518	30,793	694,951
Pool participant withdrawal	-	146,959,769	-
Total deductions	381,200,963	146,990,562	696,009
Change in net position			
Restricted for employees' pension benefits	(42,253,607)	-	-
Restricted for employees' other postemployment benefits	(9,864,529)	-	-
Held in trust for pool participants	-	(153,776,654)	-
Held in trust for individuals, organizations and other governments	-	-	917,980
Net position, July 1	3,973,354,964	153,776,654	3,374,539
Net position, June 30	$ 3,921,236,828	$ -	$ 4,292,519

The accompanying notes are an integral part of these financial statements.

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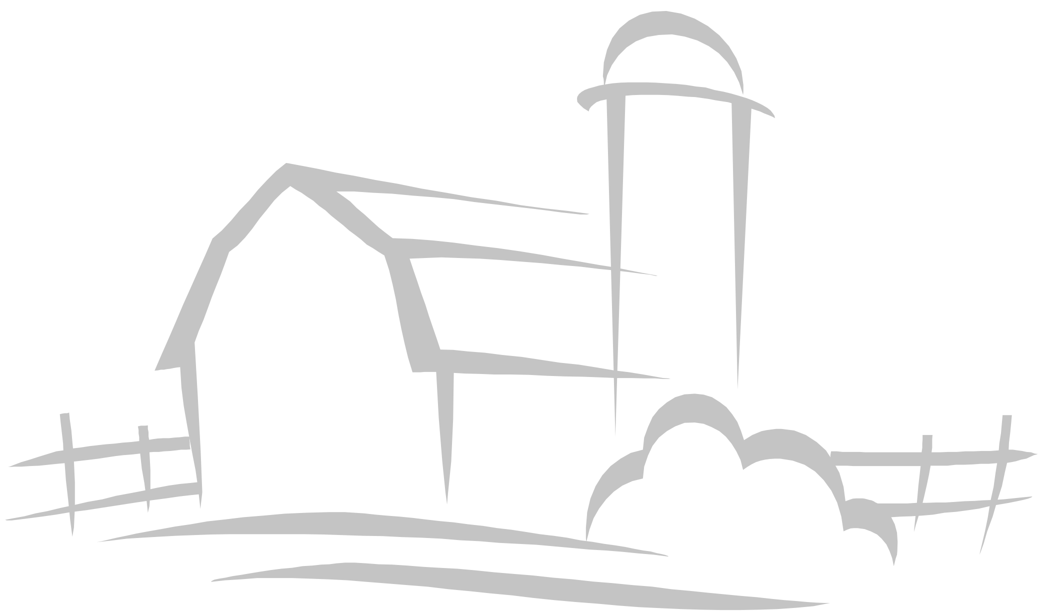

Vermont

DISCRETELY PRESENTED COMPONENT UNITS FINANCIAL STATEMENTS

STATE OF VERMONT
STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2016

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
ASSETS						
Current Assets						
Cash and cash equivalents	$ 23,141,000	$ 117,506,000	$ 10,550,080	$ 248,000	$ 23,391,317	$ 174,836,397
Investments	-	151,455,000	5,326,532	11,231,000	28,094,182	196,106,714
Accounts receivable, net	-	36,263,000	11,277,010	-	2,383,076	49,923,086
Accrued interest receivable - loans	9,331,000	-	-	3,008,000	2,383,803	14,722,803
Accrued interest receivable - investments	22,000	-	-	128,000	-	150,000
Loans and notes receivable - current portion	136,443,000	1,328,000	-	31,807,000	80,139,093	249,717,093
Other receivables	3,459,000	2,338,000	-	1,139,000	996,381	7,932,381
Due from federal government	180,000	7,519,000	-	-	4,481,572	12,180,572
Inventories, at cost	-	2,827,000	18,048	-	106,600	2,951,648
Other current assets	593,000	9,773,000	3,037,717	-	900,000	14,303,717
Total current assets	173,169,000	329,009,000	30,209,387	47,561,000	142,876,024	722,824,411
Restricted and Noncurrent Assets						
Cash and cash equivalents	79,764,000	13,883,000	626,272	62,008,000	6,787,026	163,068,298
Investments	4,396,000	497,240,000	43,274,853	173,892,000	74,836,750	793,639,603
Loans and notes receivable, net	822,453,000	34,125,000	5,529,077	257,992,000	863,451,323	1,983,550,400
Other assets	-	405,000	25,901	1,126,000	23,903,399	25,460,300
Total restricted and noncurrent assets	906,613,000	545,653,000	49,456,103	495,018,000	968,978,498	2,965,718,601
Capital Assets						
Land	3,150,000	31,429,000	9,004,664	50,000	849,486	44,483,150
Construction in progress	-	78,905,000	2,161,915	-	163,168	81,230,083
Capital assets, being depreciated						
Buildings and leasehold improvements	17,168,000	766,868,000	258,179,119	1,796,000	33,837,962	1,077,849,081
Equipment, furniture and fixtures	10,207,000	167,408,000	32,922,589	1,374,000	5,379,354	217,290,943
Infrastructure	-	-	38,412,108	-	-	38,412,108
Less accumulated depreciation	(15,324,000)	(469,812,000)	(166,851,556)	(2,588,000)	(22,416,708)	(676,992,264)
Total capital assets, net of depreciation	15,201,000	574,798,000	173,828,839	632,000	17,813,262	782,273,101
Total assets	1,094,983,000	1,449,460,000	253,494,329	543,211,000	1,129,667,784	4,470,816,113
DEFERRED OUTFLOWS OF RESOURCES						
Loss on refunding of bonds payable	-	3,524,000	-	-	23,489,877	27,013,877
Interest rate swaps	-	-	14,963,264	3,375,000	-	18,338,264
Pension related outflows	-	-	-	-	3,674,581	3,674,581
Total deferred outflows of resources	-	3,524,000	14,963,264	3,375,000	27,164,458	49,026,722

The accompanying notes are an integral part of these financial statements.

continued on next page

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
LIABILITIES						
Current Liabilities						
Accounts payable and accrued liabilities	4,412,000	70,539,000	12,910,396	428,000	3,173,829	91,463,225
Accrued interest payable	-	-	-	3,428,000	265,000	3,693,000
Bond interest payable	563,000	-	-	-	2,036,861	2,599,861
Unearned revenue	6,920,000	58,057,000	6,802,946	-	25,000	71,804,946
Other current liabilities	-	-	-	-	132,808	132,808
Current portion of long-term liabilities	6,855,000	10,674,000	5,422,083	16,972,000	230,474,124	270,397,207
Due to primary government	-	-	-	-	2,062,183	2,062,183
Escrowed cash deposits	-	-	-	2,561,000	162,000	2,723,000
Advances from primary government	-	-	-	-	5,517,145	5,517,145
Total current liabilities	18,750,000	139,270,000	25,135,425	23,389,000	243,848,950	450,393,375
Noncurrent Liabilities						
Bonds, notes and leases payable	869,035,000	564,726,000	117,092,914	430,035,000	588,625,038	2,569,513,952
Accounts payable and accrued liabilities	-	19,401,000	48,106	-	-	19,449,106
Accrued arbitrage rebate	2,457,000	-	-	-	163,405	2,620,405
Net pension liabilities	-	-	-	-	9,108,532	9,108,532
Net other postemployment benefits obligation	-	202,356,000	59,599,052	-	-	261,955,052
Other liabilities	-	-	21,027,186	4,328,000	7,520	25,362,706
Total noncurrent liabilities	871,492,000	786,483,000	197,767,258	434,363,000	597,904,495	2,888,009,753
Total liabilities	890,242,000	925,753,000	222,902,683	457,752,000	841,753,445	3,338,403,128
DEFERRED INFLOWS OF RESOURCES						
Gain on refunding of bonds payable	34,896,000	-	-	-	-	34,896,000
Service concession arrangement	-	9,012,000	-	-	-	9,012,000
Pension related inflows	-	-	-	-	1,747,443	1,747,443
Total deferred inflows of resources	34,896,000	9,012,000	-	-	1,747,443	45,655,443
NET POSITION						
Net investment in capital assets	15,201,000	80,234,000	54,415,707	632,000	15,472,262	165,954,969
Restricted						
Endowments - expendable	-	299,276,000	9,466,755	-	-	308,742,755
Endowments - nonexpendable	4,732,000	111,533,000	17,787,829	-	-	134,052,829
Grants and scholarships	687,000	-	-	-	-	687,000
Bond resolution	72,785,000	-	-	82,278,000	-	155,063,000
Interest rate subsidies	-	-	-	-	38,000	38,000
Investment in limited partnerships	-	-	-	-	3,496,000	3,496,000
Collateral for commercial paper program	-	-	-	-	20,131,000	20,131,000
Project and program commitments	-	-	-	592,000	26,026,258	26,618,258
Loans receivable	-	-	-	-	201,394,915	201,394,915
Unrestricted	76,440,000	27,176,000	(36,115,381)	5,332,000	46,772,919	119,605,538
Total net position	$ 169,845,000	$ 518,219,000	$ 45,554,910	$ 88,834,000	$ 313,331,354	$ 1,135,784,264

STATE OF VERMONT
STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2016

	Vermont Student Assistance Corporation	University of Vermont and State Agricultural College	Vermont State Colleges	Vermont Housing Finance Agency	Non-major Component Units	Total Component Units
Expenses						
Salaries and benefits	$ 20,592,000	$ 419,798,000	$ 121,328,667	$ 3,385,000	$ 22,533,949	$ 587,637,616
Other expenses	24,554,000	201,459,000	47,691,920	3,241,000	24,985,899	301,931,819
Scholarship, grants and fellowships	25,999,000	16,002,000	6,920,136	-	-	48,921,136
Depreciation	874,000	26,422,000	10,488,999	80,000	1,563,505	39,428,504
Interest on debt	6,816,000	17,163,000	5,569,104	15,430,000	23,701,216	68,679,320
Total expenses	78,835,000	680,844,000	191,998,826	22,136,000	72,784,569	1,046,598,395
Program Revenues						
Charges for services	49,297,000	415,663,000	119,452,606	987,000	47,889,724	633,289,330
Operating grants and contributions	32,615,000	244,621,000	60,092,468	-	15,072,061	352,400,529
Capital grants and contributions	-	1,580,000	3,244,124	-	5,579,586	10,403,710
Total program revenues	81,912,000	661,864,000	182,789,198	987,000	68,541,371	996,093,569
Net revenue (expense)	3,077,000	(18,980,000)	(9,209,628)	(21,149,000)	(4,243,198)	(50,504,826)
General Revenues						
Property transfer tax	-	-	-	-	9,554,840	9,554,840
Investment income	393,000	-	624,012	27,164,000	4,248,398	32,429,410
Additions to non-expendable endowments	-	-	462,918	-	-	462,918
Miscellaneous	-	9,742,000	-	2,176,000	106,712	12,024,712
Total general revenues	393,000	9,742,000	1,086,930	29,340,000	13,909,950	54,471,880
Changes in net position	3,470,000	(9,238,000)	(8,122,698)	8,191,000	9,666,752	3,967,054
Net position - beginning, as restated	166,375,000	527,457,000	53,677,608	80,643,000	303,664,602	1,131,817,210
Net position - ending	$ 169,845,000	$ 518,219,000	$ 45,554,910	$ 88,834,000	$ 313,331,354	$ 1,135,784,264

The accompanying notes are an integral part of these financial statements.

STATE OF VERMONT
NOTES TO THE FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2016

Note I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Vermont (State) have been prepared in accordance with generally accepted accounting principles as applicable to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting policies.

Newly implemented in these financial statements are the requirements of three new GASB statements. GASB Statement No. 72, *Fair Value Measurement and Application,* provides guidance on the reporting for the fair value of investments. GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides the hierarchy of sources of accounting principles used to prepare financial statements. GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes certain criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes.

The accompanying financial statements present the financial position of the State, the results of operations of the State and the various funds and fund types, and the cash flows of the various proprietary funds. The financial statements are presented as of and for the period ended June 30, 2016.

The following is a summary of the more significant accounting policies employed in the preparation of these financial statements.

A. Financial Reporting Entity

The State of Vermont's Primary Government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, with a Senate of 30 members and a House of Representatives of 150 members; and the Judicial Branch, with Supreme and Superior Courts and the Judicial Bureau.

The basic financial statements include all funds, agencies, boards, commissions and organizations of the primary government (the State), as well as component units that have been determined to meet the requirements for inclusion in the State's financial reporting entity.

Component Units are entities that, although legally separate from the State, have been included because they are either financially accountable to the State, or have relationships with the State such that exclusion would cause the State's financial statements to be misleading or incomplete. These component units are financially accountable to the State if the State appoints a voting majority of the organization's governing body and it is able to impose its will on that organization, or if there is a potential for the organization to provide a financial benefit or financial burden to the State. Alternatively, for those organizations where the State does not appoint a voting majority, an organization is financially accountable to the State if the organization is fiscally dependent and the organization provides a financial benefit or financial burden to the State.

Component unit activity may be "blended" into the activity of the primary government or may be reported separately. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. If they are reported separately, they are called "discretely presented component units" and are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit's designation as either "major" or "non-major" has been determined by the entity's relative significance to the State. Additional information as well as separately issued financial reports may be obtained by contacting the individual entity desired at the address given in the following text.

Discretely Presented Major Component Units

The "Discretely Presented Component Units" contained in the government-wide financial statements report the financial results of the following entities:

Vermont Student Assistance Corporation (VSAC) – VSAC was established by the Vermont Legislature to provide opportunities for persons who are residents of Vermont to attend colleges or other institutions of higher education by awarding grants and by making, financing, servicing, and guaranteeing loans to qualifying students. The Governor of the State appoints five of the eleven members of the Board of Directors and the State Legislature appoints two additional members. The State of Vermont has the ability to impose its will upon VSAC through its ability to change or alter the organization, structure or programs. For further information, contact their administrative offices at 10 East Allen Street, P.O. Box 2000, Winooski, Vermont 05404.

University of Vermont (UVM) - The University of Vermont's financial report includes both the University and the State Agricultural College. The State appoints twelve of the twenty-three voting members of the Board of trustees. The State has assumed an obligation to provide financial support through its annual appropriation and is obligated to maintain the University's debt service reserves. Additional information may be obtained by contacting the university's administrative offices at 348 Waterman Building, Burlington, Vermont 05405.

Vermont State College System (VSC) – The Vermont State College System's annual report includes the financial activity for the following organizations:

System Offices and Services
Community College of Vermont
Castleton University
Johnson State College
Lyndon State College
Vermont Technical College
Vermont Manufacturing Extension Center
Small Business Development Center
Vermont Tech Office of Continuing Education and Workforce Development

The Governor, with the advice and consent of the Senate, appoints nine of the fifteen members of the board of trustees, and the legislature appoints an additional four members. The State has assumed an obligation to provide financial support through its annual appropriations and has assumed an obligation to maintain VSC's debt service reserves. Additional information about the system itself or about any of the individual organizations included in the system may be obtained by contacting the Office of the Chancellor, Vermont State Colleges, PO Box 7, Montpelier VT 05601.

Vermont Housing Finance Agency (VHFA) – The VHFA was created in 1974 by an Act of the General Assembly of the State of Vermont for the purpose of financing and promoting affordable, safe and decent housing opportunities for low- and moderate-income Vermonters. The State appoints voting members of VHFA's board of commissioners. The State is able to impose its will on the organization as the Governor can remove any member of the board at will. The State also has an obligation to maintain the organization's debt reserves. Further information may be obtained by contacting the Agency's administrative offices at 164 Saint Paul Street, Burlington, VT 05401.

Discretely Presented Non-major Component Units

Vermont Economic Development Authority (VEDA) (audited by KPMG, LLC.) – VEDA, a tax-exempt entity, was created by the Vermont Legislature for the purpose of promoting economic prosperity in the State by directly financing eligible businesses and projects including manufacturing, agricultural, and travel and tourism enterprises; and by operating programs which provide eligible borrowers with access to capital. The authority has 15 voting members consisting of the Secretary of the Agency of Commerce and Community Development, the State Treasurer, the Secretary of Agriculture, Food and Markets, the Commissioner of Forest, Parks, & Recreation, and the Commissioner of Public Service or a designee of any of the above; and ten members, who are residents of the State of Vermont and appointed by the Governor with the advice and consent of the senate. The State has the ability to impose its will on the entity as the Governor can remove members at will and the State can change the structure and activities of the organization at any time. The entity's services primarily benefit the Vermont citizenry.

VEDA also administers the State Infrastructure Bank (SIB), the Drinking Water State Revolving Loan Fund – Private Loans, the Brownfields Revitalization Fund, Clean Energy Development Fund, and the Windham County Economic Development Fund. These five funds are administered for the benefit of the State and are consolidated and reported in VEDA's agency fund. Audited financial statements and additional information may be obtained by contacting VEDA at 58 East State Street, Suite 5, Montpelier, Vermont 05602.

Vermont Housing and Conservation Board (VHCB) – The Legislature created and charged this organization with two goals: create affordable housing for Vermont residents; and conserve and protect Vermont's agricultural lands, historic properties, important natural areas, and recreational lands. The VHCB's Board of Directors is appointed by the Governor of the State of Vermont and there is a material financial relationship. Funding for the organization is provided by the Legislature, comprised of 50% of the revenue from the property transfer tax, plus other monies appropriated from time to time. The VHCB issues audited financial statements under separate cover. Additional information may be obtained by contacting them at 58 East State Street, Suite 5 Montpelier, Vermont 05602.

Vermont Municipal Bond Bank (VMBB) – The Vermont Legislature established the VMBB for the express purpose of fostering and promoting adequate capital markets and facilities for borrowing money by governmental units of the State of Vermont for the financing of public improvements or other public purposes. The Governor appoints the four directors, and can remove members at will. VMBB is authorized, with written consent of the Governor and the State Treasurer, to carry out these charges by borrowing money or by issuing its own bonds and notes to obtain funds which are then utilized to purchase bonds and notes issued by local governmental entities. The State is obligated annually to appropriate any funds necessary to maintain required reserves of the bond bank. The VMBB has an annual fiscal year (December 31) and issues audited financial statements under separate cover.

VMBB also administers the Special Environmental Revolving Fund in accordance with 24 V.S.A. 4753(b). This fund was created by the Vermont Legislature for the purpose of fostering and promoting timely expenditures by municipalities for water supply, water pollution control, and solid waste management. The fund has a June 30 year-end and issues its own audited financial statements. For financial reporting purposes, its financial statements have been consolidated with the State's Federal Revenue Fund financial statements in this CAFR. Further information regarding VMBB or the Special Environmental Revolving Fund may be obtained by contacting VMBB at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Educational and Health Buildings Financing Agency (VEHBFA) – VEHBFA is a non-profit entity which finances or assists in the financing of projects for eligible Vermont educational or health related entities. The majority of the Board of VEHBFA is appointed by the Governor of the State. The Board may appoint officers, agents, consultants and employees and fix their compensation, subject to approval of the Governor. It has a December 31 (annual) year-end and issues audited financial statements under separate cover. For additional information, they may be contacted at 20 Winooski Falls Way, Winooski VT 05404.

Vermont Veterans' Home – The Vermont Veterans' Home was originally chartered in 1884 by the Vermont Legislature and incorporated on November 24, 1884. A Board of Trustees appointed by the Governor oversees the operations of the Vermont Veterans' Home. The State can impose its will on the entity as directors serve at the pleasure of the Governor. The Vermont Veterans' Home is financially accountable to the State as the State provides all funding and controls the finances of the Home. The Vermont Veterans' Home issues its own audited financial statements under separate cover. Additional information may be obtained by contacting them at 325 North Street, Bennington, Vermont 05201.

Vermont Telecommunications Authority – The Vermont Telecommunications Authority was created in June 2007, pursuant to 30 V.S.A. 8061, for the purposes of ensuring that all regions of the State have access to affordable broadband and mobile telecommunications services and promoting and facilitating ongoing upgrades in statewide telecommunications infrastructure in the most efficient and economically feasible manner. Under the terms of Act 190 of 2014, the VTA ceased operations as a non-profit corporation, and all remaining assets and liabilities were merged into the State's Department of Public Service. The accounting and financial reporting for the merger was in accordance with GASB Statement No. 69. Additional information can be found in Note V. F. Accounting Changes.

Vermont Transportation Authority (VTA) – The Vermont Legislature specifically authorized the creation of VTA pursuant to the acquisition, operation, and support of an authorized transportation facility as defined in 29 V.S.A. 701. All members of the authority are appointed by the Governor, and all resources revert to the State on termination of the authority. The VTA, currently inactive, has remained in the State Statutes in case it becomes necessary to reactivate it in the future. Additional information may be obtained from the Agency of Transportation – Rail Division, National Life Building, Montpelier, Vermont 05633–5001.

Joint Ventures

A joint venture is a legal entity or other contractual arrangement that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or responsibility. The Tri-State Lotto Commission (31 V.S.A. 673) is classified as a joint venture. The financial activities' of this organization have not been included in the State's financial statements; however, see Note V. E. for additional information regarding the organization.

Jointly-governed Organizations

The following organizations are classified as jointly-governed organizations, because they represent units over which control is exercised jointly by the State along with various other governmental agencies. There is no specific ongoing financial benefit or burden for the State associated with these organizations, which distinguishes these arrangements from those classified as joint ventures. The financial activities of these organizations are not included in the State's financial statements.

Connecticut River Valley Flood Control Commission (10 V.S.A. 1153)
New England Board of Higher Education (16 V.S.A. 2692)
New England Interstate Water Pollution Control Commission (10 V.S.A. 1333)
Northeastern Forest Fire Protection Commission (10 V.S.A. 2503)

Related Organizations

Related organizations are separate legal entities for which the primary government appoints a voting majority of the board members, but does not have either (a) the ability to impose its will on the organization or (b) a relationship of financial benefit or burden with the organization. The Vermont State Housing Authority (24 V.S.A. 4005) has been classified as a related organization, and thus their financial activity has not been included in the State's financial statements.

Excluded Organizations

The following entities have been determined not to be part of the reporting entity after applying the criteria of GASB Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statements No. 61.

Vermont Sustainable Jobs Fund, Inc.
Vermont Information Technology Leaders (VITL)
Vermont Council on the Humanities
Vermont Council on the Arts

Vermont Historical Society
Vermont Public Power Supply Authority
Connecticut River Atlantic Salmon Commission (10 V.S.A. 4654)
Texas Low Level Radioactive Waste Disposal Compact (10 V.S.A. 7013)

These organizations have not been included in the reporting entity because they are legally separate entities and the voting majority of their governing boards are not appointed by the State. They are not fiscally dependent on the State's primary government and exclusion from the reporting entity would not render Vermont's financial statements incomplete or misleading.

B. Basis of Presentation—Government-wide Financial Statements

The basic financial statements of the State of Vermont include both *government-wide statements* and *fund financial statements*. The focus of the government-wide statements is on reporting the operating results and financial position of the State as a whole and present a longer-term view of the State's finances. The focus of the fund financial statements is on reporting on the operating results and financial position of the most significant funds of the State and present a shorter-term view of how operations were financed and what remains available for future spending.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, although the latter are excluded from the government-wide financial statements.

The State of Vermont's Government-wide Financial Statements (the Statement of Net Position and the Statement of Activities) report information on all of the financial activities of both the primary government and its component units, except fiduciary activity. Fiduciary fund activity has not been included in these entity-wide statements in accordance with the requirements of GASB Statement No. 34. For the most part, the effect of interfund activity has also been removed from these government-wide statements. Primary government activities are segregated between governmental activities and business-type activities. Governmental activities' sources of revenues are normally taxes and inter-governmental revenues. Business-type activities rely, to a significant extent, on fees and charges for support. Further, the primary government is reported separately from its legally separate discretely presented component units.

The Statement of Activities demonstrates the degree to which direct expenses of a given function, segment, or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function, segment, or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Items not properly included among program revenues are reported instead as general revenues. Taxes and other resources that are dedicated internally are reported as general revenues rather than as program revenues. The State does not allocate general government (indirect) expenses to other functions.

Net position (the amount by which assets and deferred outflows exceed liabilities and deferred inflows) are reported on the Statement of Net Position in three components:

(1) Net investment in capital assets– total amount of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds and other debt that are related to the acquisition or construction of those assets, including related deferred outflows of resources and deferred inflows of resources;

(2) Restricted – for amounts when constraints placed on the net position are either externally imposed, or are imposed by constitutional provisions or enabling legislation.

(3) Unrestricted – the total net position which do not fit the two preceding categories.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted assets first with unrestricted resources utilized as needed.

C. Basis of Presentation—Fund Financial Statements

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. A fund is defined as a separate accounting entity with a self-balancing set of accounts. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds, and discretely presented component units. Major governmental funds, major proprietary funds, and major component units are reported in individual columns in their respective fund financial statements. Non-major funds and component units are combined and reported in a single column. The single test for classifying a fund as either major or non-major consists of applying the following two steps:

a. Total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, etc.) for all funds in that category or type (that is total governmental or total enterprise), **and**
b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to the above major fund criteria, any other governmental or enterprise fund that government officials believe is particularly important to financial statement users (i.e. because of public interest or for consistency) may be reported as a major fund.

The financial activities of the State reported in the accompanying financial statements have been classified into the following governmental, proprietary and fiduciary funds:

Governmental Funds

General Fund – The Vermont Legislature has established the General Fund as the basic operating fund of the State. As such, the General Fund is used to finance and to account for all expenditures for which no special revenues have otherwise been provided by law. All revenues received by the State and not otherwise required by law to be deposited in any other designated fund or used for any designated purpose are deposited in the General Fund. Unexpended and/or unencumbered appropriation balances will, unless otherwise directed by law, revert to fund balance at the end of the fiscal year to be re-appropriated in the future.

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted, committed or assigned to expenditures for specified purposes other than debt service or capital projects, and include the following:

Transportation Fund – This fund is a major special revenue fund. It is used primarily for preservation, maintenance, and improvements to the State's transportation infrastructure. This infrastructure includes highways, bridges, railroads, airports, public transportation, and other related activities. The fund is also used for construction of transportation capital facilities. The primary sources of revenue in this fund are motor fuel taxes, motor vehicle purchase and use tax, motor vehicle license and registration fees, traffic ticket revenue, other statutorily specified revenues, as well as reimbursements from the federal government for transportation projects.

Education Fund – This fund is a major special revenue fund. It was established by the Vermont Legislature to equalize statewide education funding requirements. Sources of funding and allowable expenditures are codified in 16 V.S.A. 4025. These allowable expenditures include payments to school districts and supervisory unions for the support of education, the costs of short-term borrowing, and statewide education tax income sensitivity adjustments. Funding includes the statewide education tax, allocations of other taxes, State lottery profits, Medicaid reimbursements, and appropriated transfers from the General Fund.

Special Fund – This fund is a major special revenue fund. It combines many individual special revenue funds that account for proceeds or specific revenues not categorized above that are limited to expenditures for specific purposes. These purposes cross the entire range of State government activities.

Federal Revenue Fund – This fund is a major special revenue fund. All federal grant receipts are recorded in this fund except for those federal funds specifically designated for human services as part of the global commitment to health Medicaid waiver, transportation or fish and wildlife purposes (which are recorded in the State's Global Commitment Fund, Transportation Fund or Fish and Wildlife Fund respectively).

Global Commitment (to Health) Fund – This fund is a major special revenue fund created in accordance with Section16c of 33 V.S.A. 1901(e). It is the result of Vermont entering into a Medicaid demonstration waiver agreement with the Federal Government. This agreement caps Federal expenditures in Medicaid services, but gives Vermont great latitude in promoting universal access to health care, cost containment, and effective administration. The State will be financially at risk for managing costs within the capped limits but stands to benefit from any savings realized from program efficiencies. As part of the agreement, the Agency of Human Services (AHS) has contracted with the Department of Vermont Health Access (DVHA), which serves as a publicly sponsored managed care organization, and adheres to all Federal managed care organization regulations.

In addition to the grant received from the Federal Government, General and Special Fund resources are used to fund payments from the Agency of Human Services to the DVHA for the purpose of providing services under the global commitment to health care waiver approved by the Federal Centers for Medicare and Medicaid Services under Section 1115 of the Social Security Act. These payments are reported as transfers out of the General and Special Funds and as transfers in to the Global Commitment Fund. These funds will be expended as appropriated by the general assembly, authorized by the Director of the DVHA, and approved by the Commissioner of Finance and Management consistent with agreements between the DVHA and departments delivering eligible services under the waiver. These resources paid to the Global Commitment Fund are adjusted by the AHS each quarter to the actual expenditures paid.

Non-major governmental funds column includes the balances and activities of the following:

Fish and Wildlife Fund – This fund is a non-major special revenue fund. The fund's revenue is committed by statute and can only be utilized for fish and wildlife purposes. Principal sources of revenue include license fees and federal grants.

Capital Projects Funds – These funds, consisting of the General Obligation Bond Projects Fund and the Transportation Infrastructure Bond Projects Fund, are non-major governmental funds, and account for and report financial resources that are restricted, committed, or assigned to be used for expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. These capital expenditures may be for the State directly or for outside organizations such as the Vermont State College System, municipalities, etc.

Debt Service Funds—These funds, consisting of the General Obligation Debt Service Fund and the Transportation Infrastructure Debt Service Fund, are non-major governmental funds, and account for and report financial resources that are restricted, committed, or assigned to be used for expenditures for bond principal and interest.

Permanent Funds – These are non-major governmental funds that report resources that are legally restricted to the extent that only earnings, not principal, may be expended for purposes that benefit the government or citizenry, such as higher education, cemetery care, and monument preservation.

Proprietary Funds

These funds account for those activities for which the intent of management is to recover the cost of providing goods or services to the general public or other departments of government primarily through user charges; or where prudent financial management dictates that periodic determinations of results of operations are appropriate. These funds include the following types:

Enterprise Funds – These nine funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The State's intent in these funds is to recover the costs including depreciation expense associated with providing the goods and services to the public primarily through user charges. Three of these enterprise funds, reporting the activities of the State's unemployment compensation program, the liquor control board, and the State's lottery program, are reported as "major funds" while the remaining six are reported as non-major funds.

> *Unemployment Compensation Trust Fund* – accounts for federal monies and unemployment taxes collected from employers to provide payment of benefits to the unemployed (21 V.S.A. Chapter 17).
>
> *Liquor Control Fund* – accounts for the operations of the Liquor Control Board which purchases, distributes, and sells distilled spirits through its agency stores (7 V.S.A. Chapter 40).
>
> *Vermont Lottery Commission* – accounts for the operations of the Vermont Lottery (31 V.S.A. Chapter 14). The net profits of the Vermont Lottery Commission are used to support public education and are transferred monthly to the Education Fund.

Internal Service Funds – These twenty-four separate funds are used to account for the financing of goods and services provided by one State department to other State agencies, departments, or intergovernmental units. Their objective is not to make a profit but rather to recover the total cost of providing these goods and services by charging users of their services and products. Activities accounted for in the State's internal service funds include risk management; employee group insurance programs; equipment acquisition and maintenance; rental and maintenance of facilities; financial, human resource, audit, and information technology services; postage, copying and supply procurement services; and State vehicle fleet management. In the government-wide financial statements, Internal Service Funds are reported within the governmental activities.

Fiduciary Funds

These funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. These funds include the following:

Pension and Other Postemployment Benefit Trust Funds – These funds are used to report assets and associated financial activity that are held in trust for the members and beneficiaries of the Vermont State Retirement (defined benefit) System, the Vermont State Defined Contribution Retirement System, the State Teachers' Retirement (defined benefit) System, the Vermont Municipal Employees' (defined benefit) Retirement System, the Vermont Municipal Employees' Defined Contribution Plan, the State's Single Deposit Investment Account, the State Employees' Postemployment Benefit Trust Fund, the Retired Teachers' Health and Medical Benefit Fund and the Vermont Municipal Employees' Health Benefit Fund.

Investment Trust Fund – Under the authority granted in 3 V.S.A. 523, beginning in Fiscal Year 2009, the State Treasurer created and began accepting deposits into the Vermont Pension Investment Committee (VPIC)

Investment Pool, an external investment pool. The investment trust fund is used to account for the investments of the external participants in the Pool. During fiscal year 2016, the external participant withdrew from the VPIC. At June 30, 2016, the VPIC is considered an internal investment pool.

Private Purpose Trust Fund – The State's only fund in this category is the *Unclaimed Property Fund*, which accounts for all abandoned property that is required to be remitted to the State. The Unclaimed Property Division in the State Treasurer's Office administers procedures for returning this property to its rightful owner if they can be located. In addition to monetary assets, from time to time, the Unclaimed Property Division may have custody of tangible property that has not been valued and therefore is not reported in the financial statements.

Agency Funds – These funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. They have no net position and report items such as Federal income tax withholding, social security tax withholding, etc.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured, such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

Government-wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Statewide education property taxes are recognized as revenues in the year for which the taxes are levied. This property tax is levied by the State on July 1, is included in the property tax bills levied by municipalities, and is collected by municipalities. The municipalities, by December 1 and June 1, must make payment to the State Treasurer in the amount specified by the Commissioner of Taxes.

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Major revenue sources considered susceptible to accrual include federal grants, interest on investments, and sales and income taxes. Expenditures generally are recorded when a liability is due and payable, with the following exceptions:

a. Employees' vested annual, personal, and compensatory leave time are recorded as expenditures when utilized. The amount of accumulated leave unpaid at the end of the fiscal year has been reported only in the accrual-basis financial statements and does not include any accruals for the State's share of any payroll taxes that will be due when the expenditures are actually paid. See the "Compensated Absences" section of this footnote for additional information.
b. Interest on general long-term debt is recognized when due to be paid.
c. Debt service expenditures and claims and judgments are recorded only when payment is due to be paid.

Proprietary Funds, Fiduciary Funds, and Discretely Presented Proprietary Fund Type Component Units **–** The financial statements presented for these types of funds use the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from non–operating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are categorized as non-operating revenues and expenses.

E. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position/Fund Balance

Cash and Cash Equivalents

Cash balances for most funds are deposited with the State Treasurer. Except for the Pension and Vermont Municipal Employees Health Benefit Trust Funds, and Capital Projects Funds, cash balances deposited with the State Treasurer are pooled together and amounts that are not immediately required are invested in short-term investments.

Income earned by these short-term investments is allocated based on average daily balances to those funds authorized to receive it while any remaining earnings are deposited in the General Fund.

Cash and cash equivalents as reported in the financial statements include bank accounts, imprest cash, short-term investments with an original maturity of three months or less such as certificates of deposit, commercial paper, federal government agencies' discount notes, money market accounts, and repurchase agreements.

Investments

The investments are categorized at their fair value measurements within the fair value hierarchy established by generally accepted accounting principles The fair value hierarchy is based on the valuation inputs used to measure fair value of the asset that prioritizes inputs into three levels: Level 1 - quoted prices for identical instruments in active markets; Level 2 - significant inputs that are observable; Level 3 - significant inputs that are unobservable.

Also certain investments that are measured at net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. For additional information regarding types of investments and basis of valuation, see Note IV.B. - Investments.

Receivables

Receivables in the government-wide financial statements represent amounts due to the State at June 30 that will be collected at some time in the future. They consist primarily of accrued taxes and federal grants and are reported net of allowance for uncollectible accounts. See Note IV.C. - Accounts Receivable for further information.

Receivables reported in the governmental funds financial statements consist primarily of accrued taxes, federal grants receivable, and notes receivable from drinking water and clean water special environmental loans. Other receivables include primarily fees, fines, and drug expenditure reimbursements due to the Medicaid program from drug companies and third party insurance companies. Revenues accrued in the governmental funds' financial statements consist primarily of accrued taxes, and other receivables that will be collected by the State within 60 days after year-end. Amounts estimated to be collected after the 60-day revenue recognition period are recorded as unavailable revenues. Federal receivables are amounts due from the federal government to reimburse the State's expenditures incurred pursuant to federally funded programs. Federal grant revenues are accrued when the qualifying expenditure is incurred. Notes and loans receivable in the General Fund consist primarily of loans to various non-profit organizations and a Vermont Economic Development Authority note held by the State (see Note V.C. - Contingent Liabilities for further information). No allowances for uncollectible amounts have been recognized in these notes receivable.

Inventories

Inventories of materials and supplies in governmental funds are recorded as expenditures when purchased. Inventories reported in the proprietary funds are valued at the lower of cost or market, except inventories reported in the Federal Surplus Property Fund (an enterprise fund) are reported at the federal acquisition cost. Cost valuation methods used in the various funds are as follows: weighted average method – Liquor Control enterprise fund, Vermont Life Magazine enterprise fund, Highway Garage internal service fund, and Offender Work Programs internal service fund; specific identification method – Vermont Lottery Commission enterprise fund, Federal Surplus Property enterprise fund, and State Surplus Property internal service fund; and first-in, first -out method – Postage internal service fund.

Prepaid Expenses

In the governmental funds, all purchases are recorded as expenditures when the invoice is entered for payment. In the proprietary and fiduciary funds, certain payments reflect costs applicable to future accounting periods and as such, are recorded as prepaid expenses. These prepaid items will be expensed as they are liquidated.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, art and historical treasures, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide Statements of Net Position, and in the fund financial statements for the proprietary and fiduciary funds. All purchased capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated assets are valued at acquisition value on the date donated to the State.

Capital assets, except as stated below, have an initial cost of at least $5,000, and provide a future economic benefit for a minimum of 2 years. This includes buildings that are not considered to be part of an infrastructure asset. All land and land use rights, regardless of cost, are capitalized and are not depreciated. Infrastructure assets are defined as long-lived economic resources that are normally stationary in nature, utilized primarily by the general public as opposed to State employees, cost at least $50,000 and provide future economic benefit for a minimum of 3 years. Normally, infrastructure assets are much greater in value, have a longer economic life, and can be preserved for a greater number of years than most capital assets. Software with a cost of at least $50,000 and a useful life of more than two years, and internally generated intangible assets with a cost of at least $150,000 and a useful life of more than one year are capitalized.

Capital assets are depreciated over their useful lives using the straight-line mid-month depreciation method. Useful lives for buildings are 5 to 50 years, equipment is 3 to 20 years, software is 3 to 10 years, and infrastructure assets are 7 to 80 years. Additional disclosures related to capital assets and assets acquired through capital leases are found in Notes IV. E. - Capital Assets, and IV. G. 3. - Lease Commitments, respectively.

When a capital asset is disposed of, its cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. Repairs and maintenance are recorded as expenses. Significant renewals and improvements that increase the life expectancy are capitalized and deductions are made for retirements resulting from the renewals or improvements. Interest incurred on debt issued for construction of governmental activities capital assets is not capitalized.

The majority of the historic artifacts and collections that are maintained by the various State agencies and departments are not included in the capital asset reporting. The items not reported are protected and preserved, held for public exhibition and educational purposes and the proceeds from any sales of such items are used to acquire new items for the collection.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The Primary Government has six items that qualify for reporting in this category, five of which are related to pensions, the unamortized balance of losses on bond refunding, changes in proportional share, differences between projected and actual earnings on pension plan investments, changes of assumptions, differences between expected and actual experience, and pension contributions made subsequent to the measurement date, all reported in the government-wide Statement of Net Position. A loss on a bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt. Changes in proportional share, changes of assumptions, and differences between expected and actual experience are capitalized and recognized over a period equal to the expected remaining service lives of all employees. Net differences between projected and actual earnings on pension plan investments is capitalized and recognized over a five-year period. Pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability after the next measurement date.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Primary Government has one type of item, which only arises under the modified accrual basis of accounting, that qualifies for reporting in this category, and that is unavailable revenue. Governmental funds report unavailable revenue in the balance sheet for revenue that is not available under the modified accrual basis. The amount is capitalized and recognized as revenue in the period that it becomes available. The Primary Government has two items that qualify for reporting in this category in the government-wide financial statements, both related to pensions. Net differences between projected and actual earnings on pension plan investments is capitalized and recognized over a five-year period. Changes in proportional share of pension related amounts are capitalized and recognized over a period equal to the expected remaining service lives of all employees.

Additional disclosures related to deferred outflows and inflows of resources are included in Notes IV. F. - Deferred Outflows and Deferred Inflows and IV. G. 4. - Retirement Plans and Other Postemployment Benefits.

Tax Refunds Payable

Tax refunds payable primarily represent amounts owed by the State to taxpayers because of overpayment of their income tax liabilities. Tax refunds payable, which reduce respective tax revenues, are accrued to the extent they are measurable based on payments and estimates. The amount reported as tax refunds payable at June 30, 2016 in the governmental funds statements is comprised of tax refunds for filed tax returns due and payable at June 30, 2016. The amount reported as tax refunds payable at June 30, 2016 in the government–wide financial statements is comprised of estimated tax liability overpayments for the first and second calendar quarters of year 2016’s tax liability that will be paid out in calendar year 2017.

Arbitrage Rebate Obligations

In accordance with Section 148(f) of the U.S. Internal Revenue Code, the State must rebate to the U.S. Government the excess of interest earned from the investment of certain debt proceeds over the yield rate of the applicable debt. Arbitrage rebate, if any, is due and payable on each five-year anniversary of the respective debt issue. As of June 30, 2016, the primary government had no outstanding arbitrage rebate obligation. The arbitrage rebate liabilities reported by the discretely-presented component units are included in “Other Long-term Liabilities” in the government-wide statement of net position.

Compensated Absences

Compensated absences’ liabilities include amounts for accumulated unpaid vacation, compensatory time, and personal leave credits. Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 24 days annually and may not accumulate more than a maximum of 45 days (360 hours) at any one time. This liability is expected to be liquidated in future periods as either salary payments or cash payments upon termination of employment. Compensatory time and personal leave time accumulates as earned by the employees but must be taken within the subsequent year or be forfeited.

Liabilities for compensated absences are recorded in the government-wide statement activity where the employees are assigned, and in the funds, where applicable. The amounts are calculated based on an employee's pay rate in effect as of year-end. Additional information including changes in balances may be found in Note IV. G. 5. - Changes in Long-term Liabilities.

Employees earn sick leave credits based on the number of years employed with a maximum accrual rate of 21 days per fiscal year. Sick leave may only be liquidated if and when sickness or injury is incurred. Additionally, if employment is terminated, any sick leave that the individual may have accrued is forfeited without any payout; therefore, it is not an accruable liability to the State. There is no limit on the amount of sick leave an employee may accumulate.

Encumbrances

Contracts and purchasing commitments are recorded as encumbrances when the contract or purchase order is executed. When the terms of the purchase order or contract have been fulfilled and payment to the contracting party is due, the encumbrance is liquidated and the liability and expenditure are recorded. Encumbrances remaining at fiscal year-end are reported within the restricted, committed, or assigned fund balances of the governmental funds, as appropriate. The amount of the encumbrances remaining in the general fund, reported as assigned fund balances, is $5,863,318.

Fund Balances

The fund balance amounts for governmental funds have been classified in accordance with GASB Statement No. 54 - *Fund Balance Reporting and Government Fund Type Definitions*. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portions of loans or notes receivable, or property held for resale unless the use of the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

- Restricted fund balances have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

- Committed fund balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Vermont Legislature, the State's highest level of decision-making authority. This formal action is the passage of a law by the legislature specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.

- Assigned fund balance includes amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted or committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed. In the General Fund, amounts are assigned by the Agency of Administration under authorization by the Legislature in the annual Budget Adjustment Act.

- Unassigned fund balance is the residual amount of the General Fund not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, generally it is the State's policy to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, it is generally the State's policy to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed. Additional information may be found in Note IV. H. - Fund Balance/Net Position.

Bond Discounts, Premiums and Issuance Costs

In the government-wide financial statements, bond discounts or premiums are capitalized and amortized over the term of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs other than prepaid insurance are reported as expenses.

In the fund financial statements, governmental fund types recognize bond discounts, premiums and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issued are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

Interfund Transactions

Interfund Loans – Short-term loans between funds outstanding at year-end for such things as cash overdrafts are recorded as Interfund Receivables/Payables. Advances To/From Other Funds represent long-term interfund loans receivable and payable.

Reimbursements – Reimbursements result when one fund makes an expenditure for a second fund when that expenditure or expense is properly applicable to the second fund. Reimbursement transactions reduce expenditures in the reimbursed fund and increase expenditures/expenses in the reimbursing fund.

Quasi-External Transactions –These transactions occur between two government funds that would be accounted for as revenue and expenditures if they occurred between a government entity and a private sector entity.

Transfers – These transfers encompass all types of transfers, except for the residual equity transfers, and are primarily routine transfers of appropriation resources between funds. Transfers are not revenue, expenditures, or expenses, and are classified as "Other Financing Sources (Uses)" in the operating statements of the governmental funds and in a separate subsection before net income in the proprietary funds.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets and liabilities that affect the disclosure of contingent assets and liabilities as of the date of the financial statements, and that affect the reported amounts of revenues and expenses for the reporting period. Actual results could differ from these estimates.

Note II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund financial statements each include a schedule that reconciles the fund balance and net changes in fund balance in the fund financial statements to the net position and changes in net position in the government-wide financial statements. Differences between the two occur because the current financial resources measurement focus and modified accrual basis of accounting that is used in governmental funds must be converted to the economic resources measurement focus and accrual basis of accounting that is used in government-wide reporting. In addition, differences will occur because balances and transactions associated with interfund activity must be eliminated in the process of preparing the government-wide financial statements, including consolidation of internal service fund data into the governmental activities in the government-wide financial statements.

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between *fund balance—total governmental funds* and *net position—governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation explains that "capital assets used in governmental activities (net of internal service funds' capital assets) are not considered financial resources for fund perspective reporting and, therefore, are not reported in the funds." The details of this $2,727,871,948 are as follows:

Land	$ 146,334,579
Works of art	127,803
Construction in progress	573,053,152
Depreciable capital assets and infrastructure, net of $1,364,835,210 of accumulated depreciation	2,008,356,414
Net adjustment to increase *fund balances - total governmental funds* to arrive at *net position - governmental activities*	$ 2,727,871,948

Another element of that reconciliation explains that "amounts are presented in the Statement of Net Position but are not presented in fund balances due to a different basis of accounting." The details of this $507,670,310 are as follows:

Long-term assets are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds	173,306,783
Deferred outflow for unamortized loss on sale of refunding bonds	9,848,778
Deferred outflow for pension related items	461,914,468
Deferred inflow for pension related items	(135,884,783)
Retirement incentive payable	(1,514,936)
Net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ 507,670,310

The final element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not considered financial liabilities for fund perspective reporting, and therefore, are not reported in the funds." The details of this $3,324,659,845 are as follows:

Bonded and capital lease debt (net of internal service funds' liability)	$ (697,940,859)
Accrued interest payable on bonds	(9,983,318)
Compensated absences (net of internal service funds' liability)	(31,820,495)
Tax refunds payable	(57,273,490)
Net pension liabilities	(1,717,898,492)
Net other postemployment benefits obligation	(794,399,394)
Other long-term liabilities	(15,343,797)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities*	$ (3,324,659,845)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances—total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period, net of internal service funds." The details of this $238,095,788 difference are as follows:

Capital outlay/functional expenditures	$ 769,739,755
Expensed net book value of disposed assets	(378,871,736)
Depreciation expense	(152,772,231)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 238,095,788

A second element of the reconciliation states that repayment of bond principal is reported as an expenditure in governmental funds. However, in the government wide statements, repayment of bond principal reduces long-term liabilities. The details of the $78,297,178 difference are as follows:

Principal repayment	$ 50,005,000
Payment to refunding bond escrow agent	28,292,178
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ 78,297,178

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. The details of this $121,925,241 difference are as follows:

Bonds issued increases long-term debt in the statement of activities	$ (89,860,000)
Refunding bonds issued increases long-term debt in the statement of activities	(25,720,000)
Bond premium is amortized over the life of the bonds in the statement of activities	(5,009,288)
Refunding bonds deferred outflow amortized to interest expense over life of refunded bonds	(1,323,008)
Bond discount is amortized over the life of the bond in the statement of activities	(12,945)
Net adjustment to decrease *changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ (121,925,241)

The final element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this $123,478,033 difference are as follows:

Increase in accrued interest payable	$ (891,618)
Increase in compensated absences	(413,280)
Decrease in payable to component units	511,806
Increase in employer pension and other postemployment benefit related costs	(117,759,379)
Increase in pollution remediation related costs	(3,410,626)
Increase in early retirement incentives	(1,514,936)
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities*	$ (123,478,033)

Note III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Vermont statutes require the head of every State department, board and commission, and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years, in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis and usually at the program level. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts, including federal receipts, exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature.

B. Deficit Fund Balances/Net Position

Business-type Proprietary Funds

Federal Surplus Property Fund ended fiscal year 2016 with both a deficit unrestricted net position and a total net position of $111,663. The program continues to suffer from a lack of inventory for sale from the federal government that could in turn be retrieved for sale by the State. The fund did not receive any additional capital from the General Fund in 2015 or 2016, as in past years due to other budgetary pressures on the State's General Fund. The plan going forward is to reduce the deficit by actively retrieving goods for sale to increase program sales in 2017 and beyond. The program had operating income of $24,804 in fiscal year 2016, mostly attributable to a reduction in staff time charged to the fund.

Vermont Life Magazine Fund ended fiscal year 2016 with both a deficit unrestricted net position and a total net position of $3,221,298. Initiatives to reduce this deficit have included the reorganization of the enterprise including the elimination of the business manager position and the hiring of a sales manager tasked with increasing advertising and product sales.

Vermont Life has also acted as a contracted editorial and design agency for the State of Vermont, taking over publication of the annual fishing Guidebook for the Department of Fish and Wildlife, and assisting Economic Development with all their marketing needs, including creating a new website geared at making people want to move to and work in Vermont. Vermont Life also aids the Vermont Department of Tourism's photography acquisitions.

Internal Service Funds

Single Audit Revolving Fund ended fiscal year 2016 with both a deficit unrestricted net position and a total net position of $301,744. In part, the deficit can be attributed to fiscal year 2009 budget rescissions resulting in a transfer to the General Fund of $196,000. The remaining deficit is due to fiscal year 2016 accruals that will be billed in fiscal 2017.

Financial & HR Information Fund ended fiscal year 2016 with a deficit unrestricted net position of $442,801 and a deficit total net position of $365,738. Revenues for fiscal year 2016 reflect an allocation to include the deficit incurred in fiscal year 2014 and reduced in fiscal year 2015. Revenues were $1.4 million higher than the allocation/billing for fiscal year 2015. Operating expenses were up approximately $1 million over fiscal year 2015 with a profit of $602,928 for fiscal year 2016. The deficit will continue to be recovered through increased efficiencies in the program as well as adjusted rate allocations to departments in fiscal year 2017.

Communications & Information Technology Fund ended fiscal year 2016 with a deficit unrestricted net position of $4,160,959 and a deficit total net position of $2,842,025, an approximately $2 million increase over fiscal year 2015 deficit total net position. The increase in this deficit is attributed to the Department of Information and Innovation's project migrating the telecommunication system to a VOIP service. The cost of this project will be recovered through a new rate model assessed to departments over the next four fiscal years. Deficit balances in other services will be recovered in adjustments to future service level agreements and allocation billing increases over the next two fiscal years.

Fleet Fund ended fiscal year 2016 with a deficit unrestricted net position of $5,577,745 but with a combined net positive position of $2,789,430. The unrestricted deficit is the result of the financing of fixed assets (vehicles) that are financed through the inter-fund payables. More importantly, the total net position is positive, but the fund had a decrease in net position of $314,091 in fiscal year 2016. A rate holiday, reduction of lease rates, or a possible payback of unused mileage charges is possible in 2017 to help reduce the overall program fund surplus.

Copy Center Fund ended fiscal year 2016 with a deficit unrestricted net position of $2,379,140 and a deficit total net position of $1,456,841. The Print Shop sales has rebounded in fiscal year 2016 after having a decrease in fiscal year 2015, and cost of sales has followed the same trend. Increases in salaries and equipment expenses were offset by decreases in depreciation, postage and contract use resulting in a $251,334 income for the year. Management continues to aggressively pursue additional business opportunities and operational efficiencies.

Postage Fund ended fiscal year 2016 with both a deficit unrestricted net position of $2,886,491 and a deficit net position of $2,637,750. Sales increased by $34,470 in fiscal year 2016 while the corresponding cost of sales only marginally increased. Operating expenses were down $46,393 which was not enough to offset a $103,023 increase in depreciation. As such, the program lost $22,160 more than in FY 2015 adding to the deficit net position in FY 2016, but at a slower rate than in the prior year. It is the intention that the current fund deficit will be recovered through business operations (continued cost containment as well as new rate structures).

Facilities Operations Fund ended fiscal year 2016 with a deficit unrestricted net position of $1,839,978 and a deficit total net position of $1,209,300, an approximate $1.3 million decrease in deficit total net position over the prior year. This fund can experience major fluctuations due to many unpredictable factors (such as weather, building damage, equipment failure) and some predictable factors, such as employee advancements (pay act & reclassifications) which do not adjust the billing rate during the year. Program management will continue to look for expense savings within their control. Eventual capitalization or a surcharge may need to be required if the fund continues to have a deficit net position.

Property Management Fund ended fiscal year 2016 with a deficit unrestricted net position of $23,692,502 and a deficit total net position of $24,226,542. The fund's deficit continues to expand due to the lack of a revenue source to cover the ongoing operating expenses of the program. The annual operating deficit increase has slowed due to the prior year sale of one of three buildings whose recovery period is set at 50 years for buildings cost financed for 20 years. Two other properties with a similar payoff structure are still held by the fund. The Administration has added a surcharge to the existing leases to aid in covering the cost associated with the program operations starting in fiscal year 2017. The program received two transfers (General Fund and proceeds from the sale) in fiscal year 2015, neither of which were repeated in fiscal year 2016 thus causing the operating deficit to return after a one year hiatus.

All Other Insurance Fund ended fiscal year 2016 with both a deficit unrestricted net position and a deficit total net position of $22,870. This fund acts more like a revolving fund in that it purchases commercial policies for state entities not provided elsewhere and billed back to those entities. One commercial policy that provides workers' compensation coverage to home care providers contracted with the Agency of Human Services requires a higher initial premium subject to rebates based on actual experience. The program purposely bills the agency the anticipated net premium. As such, the cost of sales can exceed the associated revenue in any given year. The current deficit net position is a timing issue that should be eliminated in 2017.

State Liability Insurance Fund ended fiscal year 2016 with both a deficit unrestricted net position and total net position of $692,792. This fund experiences fluctuations in the IBNR balance which can vary year to year based on actuarial assumptions and approach. At this time there are no immediate plans to adjust rates with a deficit surcharge. Program management will continue to monitor fund activity and look for expense savings where possible.

Life Insurance Fund ended fiscal year 2016 with both a deficit unrestricted net position and a total net position of $42,809. The insurance premium expense increased by $488,598, along with $96,222 decrease in revenue in fiscal year 2016 accelerated the surplus reduction effort started in fiscal year 2015. Otherwise, this fund does not typically see much fluctuation. Billings and expenses should stabilize as the fund balance approaches $0.

Fiduciary Fund Types

Vermont Retired Teachers' Health and Medical Benefits Fund ended fiscal year 2016 with a deficit net position of $20,961,072. The statute creating this fund (16 V.S.A. 1944b) authorizes the State Treasurer to use interfund borrowings of up to $30 million to finance any shortfalls in this fund, and it is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023. At June 30, 2016 the interfund loan balance was $23,054,611.

NOTE IV. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Cash and Cash Equivalents

Deposits for the primary government are governed by State statutes. When depositing public monies, the State Treasurer must act in accordance with 32 V.S.A. Chapter 431. Although the statute provides requirements for the collateralization of deposits, it does not establish limits. These limits are set by published formal guidelines issued by the State Treasurer.

The custodial credit risk for deposits is the risk that in the event of a depository financial institution failure, the government will not be able to recover funds deposited in the failed institution or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository (FDIC) insurance and are uncollateralized; or collateralized with securities held by the pledging financial institution's trust department or agent, that are not registered in the depositor – government's name. Although State statute does not require deposits to be collateralized, the Treasurer requires the State's cash deposits held in its primary bank to be collateralized with either United States Treasury securities or Vermont municipal securities or other approved money market instruments, or other collateral acceptable to the Treasurer. Certificates of deposit are collateralized, in whole or in part, on the basis of agreements with the bank, a protocol requiring periodic due diligence and review of bank capitalization and assets. Bank deposits in excess of the FDIC amounts and collateral agreements are uninsured and uncollateralized. Bank balances of deposits for the primary government, excluding pension, other post employment benefits, and investment trust funds, at June 30, 2016, were $379,428,303. Of these, $9,922,946 were exposed to custodial credit risk as uninsured and uncollateralized.

The Unemployment Compensation Trust Fund had $272,369,271 on deposit with the U.S. Treasury at June 30, 2016. This amount is presented as cash and cash equivalents and is not included in the carrying amount of deposits, nor is it categorized according to risk, because it is neither a deposit with a financial institution nor an investment.

The pension, other postemployment benefits, and investment trust funds' cash deposits, outside of the pension trust funds' custodian bank at June 30, 2016, totaled $7,320,132 none of which was exposed to custodial credit risk.

B. Investments

<u>Primary Government—Excluding All Pension, Other Postemployment Benefits, and Investment Trust Funds</u>

Investments for the primary government are governed by State statutes. The State has an investment policy with an overriding goal of minimizing exposure to risk and maintaining liquidity necessary for future cash needs while maximizing the return on investments. Two sections of State statute govern the investment of the State's operating and restricted cash (i.e., non-pension funds).

When investing public monies, the State Treasurer must act in accordance with 32 V.S.A. 433. Types of investments allowed include obligations of the United States, its agencies and instrumentalities, and any repurchase agreements whose underlying collateral consists of such obligations or other approved money market instruments; certificates of deposit issued by banks and savings and loan associations approved by the State Treasurer; prime bankers' acceptances; prime commercial paper; tax exempt securities; and domestic money market funds. Also, the State Treasurer's Office issues additional formal guidance that is reviewed periodically, to assure that the three investment objectives -- safety, liquidity, and yield -- are met.

The statutory guidelines for certain trust funds are contained in 32 V.S.A. 434, referred collectively as the Trust Investment Account. These include the Tobacco Trust Fund, the Higher Education Trust Fund, the ANR Stewardship Fund, two Veterans' Home trusts, the Fish and Wildlife Trust, Vermont State Retirement OPEB Fund, and various small trusts.

The State Treasurer may invest funds in accordance with the standard of care established by the prudent investor rule and apply the same investment objectives and policies adopted by the Vermont State Employees' Retirement System, where appropriate, to the investment of funds in the Trust Investment Account.

Investments are stated at fair value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at fair value when published market prices and quotations are available, or for certain securities at amortized cost. Management at the State Treasurer's Office is responsible for the fair value measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the Office believes that reported fair values at the balance sheet date are reasonable.

(a) Fair Value Measurements

The State categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset as follows:

- Level 1: Inputs are quoted prices for identical investments in active markets.
- Level 2: Observable inputs other than quoted market prices.
- Level 3: Unobservable inputs.

The fair value measurement at June 30, 2016 for the primary government, with the exception of the Pension and OPEB trust funds is as follows.

Primary Government Rated Debt Investments

Excluding Pension, Other Postemployment Benefits, and Investment Trust Funds

(Expressed in Thousands)

		Fair Value Measurement Level		
Investments by fair value level	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt investments:				
US Agencies/Treasuries	$ 1,222	$ 1,222	$ -	$ -
Fixed Income Mutual Funds	24,489	24,489	-	-
Total debt investments	25,711	25,711	-	-
Equities:				
Equity Securities	2,012	1,912	-	100
Equity Mutual Funds	15,538	15,538	-	-
Total equity securities	17,550	17,450	-	100
Total investments by fair value level	43,261	$ 43,161	$ -	$ 100
Investments measured by net asset value (NAV)				
Money Market Mutual Funds	309,928			
Total investments by NAV	309,928			
Total investments	$ 353,189			

The above money market mutual funds ($309,928) are classified as cash and short-term investments on the financial statements.

(b) Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The primary government's investments, other than pension and investment trust funds' investments, at June 30, 2016 are presented as follows:

Primary Government Investments - Excluding
Pension and Other Postemployment Benefits Trust Funds
(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1 to <6**	**6 to 10**	**More Than 10**
Debt Investments:					
US Agencies/Treasuries..................	$ 1,222	$ 157	$ 551	$ 294	$ 220
Money Market Mutual Funds............	309,928	309,928	-	-	-
Fixed Income Mutual Funds.............	24,489	24,489	-	-	-
Total Debt Investments...............	335,639	$ 334,574	$ 551	$ 294	$ 220
Other Investments:					
Equity Securities...........................	2,012				
Equity Mutual Funds.......................	15,538				
Total Investments......................	$ 353,189				

(c) Concentration of Credit Risk
Concentration of credit risk is the risk of loss attributable to the monetary magnitude of the State's investment in a single issuer. While State statute does not establish ceilings, formal investment guidelines for operating funds limit the amount invested to 10% in any one issuer of commercial paper, corporate securities, or bankers' acceptances. There are no limitations for U.S. Government and Federal Agencies. Money market funds utilized by the State Treasurer's Office are highly rated and incorporate the requisite diversification. As of June 30, 2016, no single issuer exceeded 5% for the primary government portfolios.

(d) Custodial Credit Risk
For investments, custodial credit risk is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The State has no formal policy on custodial credit risk but maintains contractual relationships with custodian banks that provide coverage and define the procedures. As of June 30, 2016 all securities were registered in the name of the State at its custodian bank. Investments in open-end mutual funds are not exposed to custodial risk because their existence is not evidenced by specific securities.

(e) Credit Risk
Credit risk is the possibility that the issuer or other counterparty to an investment may default on their obligations. In non-pension funds this risk has been mitigated by implementing statutory guidelines on credit quality and further restricted by formal investment guidelines and the use of low-risk money market instruments. The credit risk associated with the State's debt securities, money market funds, bond mutual funds, and other pools of fixed income securities, exclusive of pension fund investments, as of June 30, 2016, is presented as follows using the Moody's rating scale.

(Table on next page.)

Primary Government Rated Debt Instruments
Excluding Pension and Other Postemployment Benefits Trust Funds
(Expressed in Thousands)

Debt Investments	Fair Value	Quality Ratings Aaa	Unrated
US Agencies/Treasuries	$ 1,222	$ 1,222	$ -
Money Market Mutual Funds	309,928	309,928	-
Fixed Income Mutual Funds	24,489	-	24,489
Totals	$ 335,639	$ 311,150	$ 24,489

(f) Foreign Currency Risk
Foreign currency risk is the extent to which changes in exchange rates affect the value of an investment. Vermont's operating funds are restricted, through statute and formal guidelines, to specific money market instruments and money market funds who only invest in domestic instruments. In the Trust Investment Account portfolio, total exposure to foreign currency risk as of June 30, 2016, was $0.

Primary Government—Pension, Other Postemployment Benefits, and Investment Trust Funds

The State has three defined benefit plans (Vermont State Retirement System (VSRS), State Teachers Retirement System (STRS), and Vermont Municipal Employees' Retirement System (MERS)); three defined contribution plans (VSRS, MERS, and Single Deposit Investment Account); and three other postemployment benefit funds. Additional information on these plan benefit and actuarial valuations may be found in Note IV.G.4. - Pension and Other Postemployment Benefits.

By statute, the assets of the three defined benefit plans are invested on behalf of each plan's Trustees through the Vermont Pension Investment Committee (VPIC), which was established by the Vermont Legislature (Title 3 V.S.A. Chapter 17), effective July 1, 2005, to combine the assets of the VSRS, STRS and MERS defined benefit plans for the purpose of (i) investment in a manner that is more cost and resource-efficient; (ii) improving the effectiveness of the oversight and management of the assets of the Retirement Systems; and (iii) maintaining the actuarial, accounting, and asset allocation integrity of the Retirement Systems. The majority of these assets have been pooled for investment purposes. Effective May 31, 2006, legislation amended VPIC's authority allowing VPIC to enter into agreements with municipalities administering their own retirement systems to invest retirement funds for those municipal plans.

On November 1, 2007, the City of Burlington, Vermont pooled its investments with the majority of the assets of the State, Teachers and Municipal defined benefit plans pursuant to a change in State statute permitting Vermont municipalities to pool their funds with the VPIC thereby creating an "external investment pool." An "external investment pool" is defined by GASB 31 as the commingling and investing of the monies of more than one legally separate entity, on the participants' behalf, in an investment portfolio. In this case, one of the participants, the City of Burlington, was not part of the State's reporting entity. On July 16, 2015, the City of Burlington Employees' Retirement System's (BERS) Board of Trustees voted to withdraw from the VPIC pool. Effective December 31, 2015, BERS withdrew their investment. As of January 1, 2016, VPIC is an internal investment pool.

All three defined benefit plans managed by the State have adopted a common asset allocation as determined by the Vermont Pension Investment Committee. As of October 29, 2009, the VPIC adopted a set of investment policies and guidelines common to all three defined benefit plans. These are used by VPIC with the objective of maximizing returns within acceptable risk parameters.

The State's Single Deposit Investment Account (SDIA), a non-contributory defined contribution plan, is invested in a commingled stable bond fund. The investment policy governing the SDIA portfolios includes a minimum average credit quality of double-A, no bonds rated below investment grade, and limitations on asset-backed, mortgage-backed, collateralized mortgage obligations, corporate bonds, and single issuers of non-treasury/ government agency backed bonds.

The Vermont State Retirement's defined contribution plan's trustee is the State Treasurer. The Vermont Municipal Employees' Retirement System Board of Trustees is the trustee for the Vermont Municipal Employees' defined contribution plan. Both plans are administered by Fidelity Investments Institutional Operations Company. Investment choices are made by participants from a range of funds approved by the trustees' for the plans. Investment options are Fidelity and non-Fidelity mutual funds including large and small market capitalization equities (actively managed and indexed), international equities, fixed income securities, balanced funds, target retirement date age based funds, and a stable value fund. Funds included in the plans were selected based on consideration of fund performance for one and multi-year periods, performance ranked against peer group funds in asset class, management fee expense ratios, fund asset class and investment objectives, historical annual returns, Morningstar ratings, performance in various stages of the capital market cycle, and consultant recommendations as to the optimal number of funds and appropriate asset classes. Fidelity provides quarterly investment reports and analysis that are reviewed by Treasury staff, the State Treasurer and Vermont Municipal Employees' Retirement's Board.

The State has three other postemployment benefit funds, the Vermont State Postemployment Benefits Trust Fund (State OPEB), the Retired Teachers' Health and Medical Benefit Fund (RTHMB) and the Vermont Municipal Employees Health Benefit Fund (Muni OPEB). The State OPEB is invested in the Trust Investment Account utilized as an investment vehicle by many of the State's primary funds. The RTHMB has no investments. The Muni OPEB in invested under the authority of the Municipal Retirement Board of Trustees and utilizes an outside administrator, ICMA-RC employing mutual funds.

Investments are stated at fair value in the case of marketable securities and at estimated fair value for certain nonmarketable securities. Money market and other short-term investments are reported at fair value when published market prices and quotations are available, or for certain securities at amortized cost. Real estate is carried at the net asset value of each retirement system's real estate fund investments, which net asset value is further based on the fair market value of the real properties. Properties' fair market values in each of the retirement systems' fund investments are established quarterly by real estate fund manager appraisals and are validated at least yearly by third-party property appraisals. Nonmarketable securities include alternative investments such as private equity and venture capital, which are valued using current estimates of fair value obtained from the Investment Manager (Manager) in the absence of readily determinable public market values. Such valuations generally consider variables such as the high, medium, and low values for portfolio investments; the investments' exit timetables, and the status of any proceedings leading to a liquidity event; the financial performance of investments, including comparison of comparable companies' earning multiples; cash flow analysis; and recent sales prices of investments. Management at the State Treasurer's Office is responsible for the fair value measurements of investments reported in the financial statements. The State Treasurer's Office has implemented policies and procedures to assess the reasonableness of the fair values provided; the Office believes that reported fair values at the balance sheet date are reasonable.

(a) Fair Value Measurements

The Pension and OPEB Trust Funds categorize the fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset that prioritizes inputs into three levels. The level is determined based on the lowest level of input significant to the measurement in its entirety.

- Level 1: Securities traded in an active market, on an exchange that have quoted unadjusted prices such as Exchange-traded equities, and exchange-traded derivatives.
- Level 2: Inputs other than quoted prices that are observable. These inputs are derived from market data through correlation or by other means, e.g., "market corroborated". These are primarily fixed income prices using an evaluated price provided by an independent pricing vendor or broker/dealer.

- Level 3: Inputs to the valuation methodology that are unobservable and significant to the fair value measurement. Instruments are often based on internally developed models in which there are few, if any, external observation.

Below is the fair value measurement table at June 30, 2016. for the Pension and OPEB trust funds.

Pension and Other Postemployment Benefits
Trust Funds' Investments
(Expressed in Thousands)

		Fair Value Measurement Level		
Investments by fair value level	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities:				
US Agencies/Treasuries	$ 187,740	$ -	$ 187,740	$ -
Corporate Debt	274,962	-	274,962	-
Repurchase Agreements	16,100	-	16,100	-
Municipals	4,344	-	4,344	-
Asset Backed Securities	8,323	-	8,323	-
Mortgage Backed Securities	48,879	-	48,879	-
Sovereign Debt	12,044	-	12,044	-
Fixed Income Mutual Funds	96,382	96,382	-	-
Total debt securities	648,774	96,382	552,392	-
Equity investments:				
Stock Securities	619,005	618,606	397	2
Equity Mutual Funds	7,497	7,497	-	-
Total equity securities	626,502	626,103	397	2
Investment derivatives:				
Options	(41)	(21)	(20)	-
Swaps	(3,326)	-	(3,326)	-
Total investment derivatives	(3,367)	(21)	(3,346)	-
Total investments by fair value level	1,271,909	$ 722,464	$ 549,443	$ 2

Investments measured at the net asset value (NAV)		**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled Fixed Income Mututal Funds	750,339	-	Daily, monthly	7-30 days
Commingled Equity Mututal Funds	877,945	-	Daily, monthly	1-30 days
Mutual Funds	558,753	-	Daily, monthly, quarterly	1-30 days
Money Market Mutual Fund	24,800	-	Daily	-
Real Estate Funds	213,883	-	Quarterly	90 days
Venture Capital Funds	192,951	-	Quarterly	60 days
Limited Partnerships	79,045	92,695	-	-
Total investments measured at NAV	2,697,716			
Total investments	$ 3,969,625			

(b) Interest Rate Risk

As pension trust funds have a different investment term horizon based on a long average liability term, the VPIC manages exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its debt securities with Core, Core Plus and Global Fixed Income Managers, requiring that the duration be within a specified percentage of the duration band of the appropriate benchmark index. In the case of domestic Core Fixed Income Managers the average duration (interest rate sensitivity) of an actively managed portfolio shall not differ from the appropriate passive benchmark's duration by more than +/- 25 percent. The Core Plus portfolio restriction is +/- two years around the passive benchmark duration. With respect to Global Fixed Income portfolios, current portfolio durations are restricted to a range of one to ten years. High yield fixed income portfolios prices and yields are not as directly correlated with the general level of interest rates and are duration monitored but not duration restricted. The calculation of the duration of mortgage backed securities involves assumptions as to the expected future prepayment rate for the security. The Managers are required to calculate duration at the time of initial purchase and on a routine basis to maintain compliance with these guidelines. Fixed income Managers are required to report portfolio characteristics quarterly inclusive of portfolio duration as a measure of portfolio interest rate sensitivity.

Pension and Other Postemployment Benefits
Trust Funds' Investments
(Expressed in Thousands)

Investment Type	Fair Value	Less Than 1	1 to <6	6 to 10	More Than 10
Debt Investments:					
US Agencies/Treasuries	$ 187,740	$ 1,900	$ 9,587	$ 103,936	$ 72,317
Corporate Debt	274,962	11,462	149,363	102,151	11,986
Money Market Mutual Fund	24,800	24,800	-	-	-
Repurchase Agreements	16,100	16,100	-	-	-
Municipals	4,344	-	-	951	3,393
Asset Backed Securities	8,323	-	488	5,937	1,898
Collaterized Mortgage Obligations	48,879	-	383	-	48,496
Sovereign Debt	12,044	1,324	5,828	3,909	983
Fixed Income Mutual Funds	846,721	846,721	-	-	-
Total Debt Investments	1,423,913	$ 902,307	$ 165,649	$ 216,884	$ 139,073
Other Investments:					
Equity Mutual Funds	885,442				
Equity Securities	619,005				
Mutual Funds	558,753				
Real Estate	213,883				
Venture Capital	192,951				
Limitied Partnerships	79,045				
Fixed Income - Derivatives	(3,367)				
Total	$ 3,969,625				

Investments per maturity schedule	$ 3,969,625
Included in cash & short-term investments:	
Repurchase agreements	(16,100)
Money market mutual funds	(24,800)
Financial statement investments total	**$ 3,928,725**

(c) Concentration of Credit Risk

Formal guidelines for pension funds state that no more than 5% of the fair value of a portfolio's domestic fixed income assets may be invested in the debt securities of any one issuer. No limitations on issues and issuers shall apply to obligations of U.S. Government and Federal Agencies. As of June 30, 2016, no issuer exceeded 5%.

(d) Custodial Credit Risk

Custodial credit risk for investments is the risk that a government will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party if the counterparty to the transaction fails. The VPIC manages exposure to custodial credit risk by requiring all relevant Managers to hold investments in separate accounts with VPIC's custodian. VPIC guidelines specify the custodial requirements for these accounts and the duties of the Managers and the custodian. As of June 30, 2016, all securities were registered in the name of the State at its custodian bank. Investments in pools, open-end mutual funds, and other investments not evidenced by specific securities are not categorized.

(e) Credit Risk

Detailed pension guidelines by asset class and supplemental requirements by Manager are used to set risk parameters and are stated in written contracts. These guidelines are reviewed and adopted by VPIC. Treasury staff and independent investment consultants are utilized to assure compliance. The credit risks associated with these securities are as follows:

Pension and Other Postemployment Benefits

Trust Funds' Investments

(Expressed in Thousands)

	Fair	Quality Ratings		
Debt Investments	**Value**	**Aaa**	**Aa**	**A**
US Agencies/Treasuries	$ 187,740	$ 185,840	$ -	$ -
Corporate Debt	274,962	340	1,966	20,350
Money Market Mutual Funds	24,800	-	-	-
Repurchase Agreements	16,100	-	-	-
Municipals	4,344	-	1,621	1,574
Asset Backed Securities	8,323	7,223	-	30
Collateralized Mortgage Obligations	48,879	9,869	2,935	1,165
Sovereign Debt	12,044	4,435	1,760	968
Fixed Income Mutual Funds	846,721	-	-	-
Totals	$ 1,423,913	$ 207,707	$ 8,282	$ 24,087

continued below

	Quality Ratings			
Debt Investments	**Baa**	**Ba**	**B and below**	**Unrated**
US Agencies/Treasuries	$ -	$ -	$ -	$ 1,900
Corporate Debt	43,331	54,291	83,636	71,048
Money Market Mutual Funds	-	-	-	24,800
Repurchase Agreements	-	-	-	16,100
Municipals	96	-	-	1,053
Asset Backed Securities	150	-	432	488
Collateralized Mortgage Obligations	2,898	5,110	15,607	11,295
Sovereign Debt	3,449	72	570	790
Fixed Income Mutual Funds	-	-	-	846,721
Totals	$ 49,924	$ 59,473	$ 100,245	$ 974,195

(f) Foreign Currency Risk

Unless VPIC stipulates specific exceptions to the guidelines, the global bond portfolio may hold no more than 30% of its assets, at market value, or 120% of each country's benchmark weight (whichever is greater) in the debt securities of any single foreign government or non-U.S. government entity. For the purposes of this calculation, all countries within the European Single Currency shall count as one country. Single non-government debt security limitations are also set for the global bond portfolio. In the case of equities, the Manager is afforded flexibility in the number of issues held and their geographic or industry distribution, provided that equity holdings are within the lesser of established percentage ranges in relation to single holding limitations and a stock's weighting in the style benchmark against which the Manager is measured. Most foreign currency exposure is in the pension and investment trust funds' portfolios. The value in US dollars by foreign currency denomination and type of investment is as follows:

Pension and Other Postemployment Benefits
Trust Funds' Investments
Foreign Currency Risk - International Securities at Fair Value
(Expressed in Thousands)

Currency	Total	Short Term	Debt	Equity	Derivatives
Australian Dollar	$ 10,545	$ 149	$ 2,782	$ 6,733	$ 881
Brazilian Real	(84)	-	-	-	(84)
Canadian Dollar	7,657	111	-	7,543	3
Danish Krone	3,055	-	-	3,055	-
Euro	99,343	146	11,013	88,182	2
Hong Kong Dollar	3,469	37	-	3,432	-
Israeli Shekel	200	7	-	193	-
Japanese Yen	57,463	305	470	57,340	(652)
Malaysian Ringgit	106	5	-	101	-
Mexican Peso	1,143	106	787	245	5
New Turkish Lira	89	-	-	89	-
New Zealand Dollar	1,574	26	656	920	(28)
Norwegian Krone	2,980	-	-	2,980	-
Philippine Peso	1	1	-	-	-
Polish Zloty	131	98	-	33	-
Pound Sterling	58,463	113	5,560	52,262	528
Russian Ruble	(5)	-	-	-	(5)
Singapore Dollar	12,842	137	-	12,706	(1)
South African Rand	633	14	-	619	-
South Korean Won	2,452	5	-	2,447	-
Swedish Krona	13,712	-	-	13,712	-
Swiss Franc	26,441	13	-	26,428	-
Thai Baht	191	2	-	189	-
Yuan Renminbi	(33)	-	-	-	(33)
Totals	$ 302,368	$ 1,275	$ 21,268	$ 279,209	$ 616

Formal investment policy guidelines adopted by the VPIC state that international equity Managers may enter into forward exchange contracts on currency provided that use of such contracts is designed to dampen portfolio volatility and facilitate securities transaction settlements rather than leverage portfolio risk exposure. In global fixed income accounts, opportunistic currency positioning may be utilized to hedge and cross-hedge the portfolio's currency risk exposure or in the settlement of securities transactions. The Managers may vary the total portfolio exposure to currency from fully unhedged to fully hedged. The global fixed income Managers are permitted to hedge all, some, or none of the portfolio's currency exposure. They are permitted to cross-hedge currency positions, but may not net short any currency, or net long more than 100% of the portfolio. VPIC has funds allocated to a global allocation asset Manager in the form of shares of a commingled trust. The Manager for this trust may enter into long and/or short positions in currencies of the countries represented in established indices. The strategy is permitted to cross-hedge currency exposure and will actively manage its currency exposure. This active management may go beyond fully-hedged or unhedged currency exposure, and is provided for by a specific exemption to the VPIC general guidelines.

Derivative Financial Instruments

Vermont Pension Investment Committee (VPIC) policy authorizes certain Managers to invest in derivative financial investments. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. Disclosures related to derivatives positions required under Governmental Accounting Standards Board Statement No. 53 – *Accounting and Financial Reporting for Derivative* Instruments (GASB No. 53) apply only to those derivative instruments held directly by the VPIC on behalf of the defined benefit plans and the external investment trust and not those held within commingled fund investment vehicles. The Pension and Other Postemployment Benefit Trust Funds do not have hedgeable assets or liabilities, and all derivative instruments are considered investment derivatives, with corresponding changes in fair value reported in investment income. The fair value of all derivative financial instruments are reported in the Statement of Fiduciary Net Position. All of the derivatives reported at June 30, 2016, are at fair value.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows:

	Changes in Fair Value		Fair Value at June 30, 2016			
	Classification	Amount	Classification	Amount	Notional	
Fiduciary Funds						
Investment derivatives						
Futures						
Fixed income futures.............	Investment revenue	$ (393,057)	Investment	$ -	$ (413)	
Options						
Fixed income options.............	Investment revenue	(65,749)	Investment	(90,558)	18,000,000	
Foreign currency options........	Investment revenue	144,332	Investment	49,446	(4,300,000)	
Swaps						
Credit default swaps...............	Investment revenue	(385,557)	Investment	(385,557)	18,781,582	
Inflation linked swaps............	Investment revenue	(63,240)	Investment	(63,240)	7,005,000	
Fixed interest rate swaps.......	Investment revenue	(2,876,727)	Investment	(2,876,727)	936,528,122	
Currency forwards						
FX forwards..............................	Investment revenue	(107,021)	Investment	-	(4,112,000)	Australian Dollar
	Investment revenue	38,652	Investment	-	1,297,818	Brazilian Real
	Investment revenue	2,780	Investment	-	1,000	Canadian Dollar
	Investment revenue	(32,869)	Investment	-	(314,172)	Yuan Renminbi
	Investment revenue	498,387	Investment	-	(11,663,000)	Euro
	Investment revenue	504,912	Investment	-	(4,342,000)	Pound Sterling
	Investment revenue	(263,465)	Investment	-	(400,547,000)	Japanese Yen
	Investment revenue	3,701	Investment	-	(13,890,648)	Mexican Peso
	Investment revenue	(27,545)	Investment	-	(874,000)	New Zealand Dollar
	Investment revenue	(5,015)	Investment	-	(48,711,626)	Russian Rubble
	Investment revenue	(900)	Investment	-	(87,883)	Singapore Dollar

Derivative instruments may be used for any of the following purposes:

- To gain market exposure.
- To convert financial exposure in a given currency to that of another currency (e.g., to hedge Japanese Yen exposure back to the U.S. dollar). Any and all international Managers may enter into foreign exchange contracts on currency provided that: a) such contracts are one year or less, and b) use of such contracts is limited solely and exclusively to hedging currency exposure existing within the Manager's portfolio. There shall be no foreign currency speculation or any related investment activity, with the exception of currency hedging Managers who enter into currency hedging will be guided by specific risk parameters in their contracts.
- To adjust the duration of a bond portfolio in a manner that is consistent with the accepted approach of the Manager and other contract terms applicable to the Manager.
- To make portfolio adjustments that are consistent with other elements of the VPIC's investment policies and that do not systematically increase risk or expected volatility of the rate-of-return of the total portfolio.
- For trading purposes which are intended to enhance investment returns. This purpose is subject to the requirement that it be consistent with other elements of the VPIC's investment policies and that it does not systematically increase the risk or expected volatility of the rate of return of the total portfolio.

All other uses of derivatives are prohibited unless specifically approved by the VPIC. Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC Portfolio. Separately managed funds include the following reporting requirements: a list of all derivative positions as of quarter-end; an assessment of how the derivative positions affect the risk exposures of the total portfolio; an explanation of any significant pricing discrepancies between the Manager and custodian bank; an explanation of any non-compliance. Commingled funds provide the VPIC with a quarterly list of derivative positions and assessment of the effect on the risk exposure of the portfolio.

For derivative securities, the Custodian Bank is required to obtain two independent prices, or to notify the VPIC that two independent prices are not available. Managers are required to reconcile the valuations of all derivatives positions on a monthly basis with the Custodian Bank. Derivatives, which are futures contracts, are Commodity Futures Trading Commission approved and exchange-traded. Options may either be exchange-traded or traded over-the-counter (OTC).

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the VPIC's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Fiduciary Net Position.

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rate on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net realized gains or losses on foreign currency related transactions in the Statement of Changes in Fiduciary Net Position. Only forward currency contracts are defined as derivatives per GASB No. 53 are reported above; currency spot contracts are not included.

Risk of loss arises from changes in currency exchange rates. At June 30, 2016, currency forward positions consisted of unrealized gains on pending foreign exchange sales of $611,617.

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specified period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the VPIC receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the VPIC pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option.

Swaps represent an agreement between two or more parties to exchange sequences of cash flows over a period in the future. At June 30, 2016, the VPIC had three different types of swap arrangements; interest rate swaps, inflation linked swaps, and credit default swaps. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. The interest rate swaps allowed the VPIC to effectively convert long term variable interest investments into fixed interest rate investments. Credit default swaps are used to manage credit exposure without buying securities outright. Gains and losses on swaps are determined based on market values and are recorded in the Statement of Changes in Fiduciary Net Position.

Counter-party creditworthiness, for non-exchange traded derivatives, shall be at a minimum of “A3” as defined by Moody’s Investor Service, “A-” by Standard & Poor’s, and “A-” by Fitch. The use of counter-parties holding a split rating with one of the ratings below A3/A– is prohibited. The use of unrated counter-parties is prohibited. Individual counter-party exposure, for non-exchange traded commodity derivatives, is limited to 50% of the notional amount of the VPIC Portfolio commodity derived exposure. An exception is allowed if the total commodity derivative exposure is less than $3 million. Any entity acting as counter-party must be regulated in either the United States or the United Kingdom. All other uses of derivatives are prohibited unless specifically approved by the VPIC. Managers are expected to have internal risk management programs in place to ensure that derivatives-based strategies do not result in inappropriate risks to the VPIC portfolio. For fiscal year 2016 all counterparties for derivatives met the VPIC counterparty risk rating requirements.

The following shows the market value of credit exposure per Moody’s ratings at June 30, 2016.

Moody's Rating	Market Value
Aa3	$ 58,644
A1	706,742
A2	233,045
A3	190,980
Baa2	142,107
Not rated	2,581
Total	$ 1,334,099

In addition, Manager credit research teams are tasked with evaluating potential counterparties for their creditworthiness as counterparties, not relying on ratings agencies alone. Managers evaluate individual counterparties using various methods of credit analysis: company visits, reports, earnings updates and take into account other factors, including the broker’s/dealer’s reputation for sound management, the past experience of the Manager with the broker/dealer, market levels for its debt and equity, its quality of liquidity provided and its share of market participation. At June 30, 2016, risk concentrations are as shown on the following page.

(Table on next page.)

Counterparty Name	Percentage of Net Exposure	Moody's Rating	S&P Rating	Fitch Rating
Bank of America NA……………………	30%	A1	A	A+
Morgan Stanley Capital Services………	14%	A3	BBB+	A
Deutsche Bank AG……………………	11%	Baa2	BBB+	A-
Citibank NA………………………………	9%	A1	A	A+
Societe Generale Paris…………………	9%	A1	-	-
Barclays Bank PLC……………………	7%	A2	A-	A
Credit Suisse International………………	6%	A2	A	A-
BNP Paribas S.A…………………………	5%	A2	A	A+
JP Morgan Chase Bank…………………	4%	Aa3	A+	AA-
Goldman Sachs Bank USA……………	2%	A1	A	A+
UBS AG…………………………………..	2%	A1	A+	A+
Goldman Sachs International……………	1%	A1	A	A
Merril Lynch Pierce Fenner & Smith….	0%	-	A	A+
HSBC Bank USA, N.A…………………	0%	Aa3	AA-	AA-

VPIC's Managers use master agreements and may receive additional protection through the collateralization requirements, which helps to mitigate a party's exposure to another party in the event of a default or termination event by requiring the pledging/posting of assets to the other party to secure any outstanding obligations under certain transactions. By regular, generally daily, movement of collateral on forward settling trades, VPIC's exposure to any particular counterparty can be reduced. Collateral movement threshold for securities under the master forward agreements typically ranges from $0 to $250,000 per account, depending on the particular counterparty. Managers require daily posting of collateral with many of our counterparties.

VPIC does not have a formal policy regarding master netting arrangements. As a general practice, Managers use industry standardized contracts, generally known as "master agreements" or "netting agreements," counterparty risk is reduced by providing parties to a transaction the ability to close out and net its total exposure to a counterparty in event of a default with respect to all transactions governed under that particular agreement. These agreements (ISDA Master Agreement and Credit Support Annex, Master OTC Options Agreement, Master Securities Forward Transaction Agreement, Global/Master Repurchase Agreement) allow parties to a transaction to know their legal rights and obligations, in addition to an ability to net. Managers generally put master agreements in place on behalf of each account it manages and each separate counterparty legal entity with which it transacts. The maximum amount of loss VPIC would face in case of default of all counterparties as of June 30, 2016, consists of the aggregated fair value of OTC positions in the amount of $390,264.

Derivative instruments often contain credit-risk-related contingent features that could result in an immediate payment to the counterparty. For example, a material adverse change clause could provide the counterparty with the right to early terminate the derivative agreement. Alternatively, it could provide a basis for renegotiating the agreement if specific events occur, such as a downgrade of the entity's credit rating below investment grade. These provisions may include an obligation to post additional collateral in instances where the credit-risk contingent feature is triggered or the counterparty is provided the right to terminate the agreement early.

The VPIC funds hold mortgage-backed securities including collateralized mortgage obligations (CMOs) at fair value. Mortgage-backed securities represent a direct interest in a pool of mortgage loans. CMOs are bonds that are collateralized by whole loan mortgages, mortgages pass-through securities, or stripped mortgage-backed securities. Income is derived from payments and pre-payments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment tranches in accordance with the payment order established for the CMO instrument. Cash flows associated with these tranches may demonstrate varying degrees of sensitivity to interest rate fluctuations. A reduction in interest rates may cause some of the tranches to experience a reduction in fair value as prepayments reduce the interest payments, causing a decline in total cash flows. In a rising interest rate environment, an increase in interest payment and cash flows may cause an increase in fair value.

Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk. Agency fixed and floating rate pass-through, U.S. Treasury securities and cash equivalents can be held without limitation. Securities designed to provide more precisely targeted maturities (Sequential Collateralized Mortgage Obligations) and those that create tranches, or Planned Amortization Classes (PAC I and PAC II), with cash flows that are protected from prepayment changes within certain limits, may also be purchased without limitation. Policy restrictions and portfolio percentage limitations are established for the purchase of more interest rate sensitive instruments and certain interest rate and price stress tests are required.

Asset-backed securities are collateralized by a loan, lease, or receivable other than real estate. Payments are collected by a servicer though a "pass-through" arrangement. As monthly payments of principal and interest are made, the pass-through security holder is entitled to a pro rata portion of the payments received. Risk of pre-payment varies with the underlying assets. Risk is minimized through the purchase of high quality instruments with limited default or prepayment risk.

C. Receivables

Accounts receivable at June 30, 2016 are summarized as follows:

	Governmental Funds		Internal	Total Governmental
	Major	Non-major	Service Funds	Activities
Governmental activities				
Taxes				
Personal and corporate income	$ 143,118,231	$ -	$ -	$ 143,118,231
Sales and use	67,717,596	-	-	67,717,596
Meals and rooms	39,733,138	-	-	39,733,138
Purchase and use	452,352	-	-	452,352
Motor Fuel	3,267,139	78,810	-	3,345,949
Other taxes	98,282,450	-	-	98,282,450
Subtotal	352,570,906	78,810	-	352,649,716
Allowance for uncollectibles	(99,015,660)	-	-	(99,015,660)
Taxes receivable, net	$ 253,555,246	$ 78,810	$ -	$ 253,634,056
		Current receivable		$ 123,112,527
		Non-current receivable		130,521,529
		Total taxes receivable, net		$ 253,634,056
Loans and notes				
Loans and notes receivable	$ 288,116,230	$ -	$ 851,207	$ 288,967,437
Allowance for uncollectibles	(717,500)	-	-	(717,500)
Loans and notes receivable, net	$ 287,398,730	$ -	$ 851,207	$ 288,249,937
		Current receivable		$ 20,316,411
		Non-current receivable		267,933,526
		Total loans and notes receivable, net		$ 288,249,937

continued on following page

	Governmental Funds		Internal	Total Governmental
	Major	Non-major	Service Funds	Activities
Federal grants				
Human services	$ 158,194,950	$ -	$ -	$ 158,194,950
Protection to Persons and Property	10,785,593	-	-	10,785,593
Transportation	46,851,107	-	-	46,851,107
Other	19,363,585	76,629	-	19,440,214
Federal grants	$ 235,195,235	$ 76,629	$ -	$ 235,271,864
Other				
Accrued interest and other receivables	$ 121,735,951	$ 117,232	$ 17,311,603	$ 139,164,786
Allowance for uncollectibles	(38,052,392)	(7,750)	(12,922)	(38,073,064)
Other receivables, net	$ 83,683,559	$ 109,482	$ 17,298,681	101,091,722
Interfund loans receivable and due from other funds from Fiduciary Funds				23,100,727
Less Internal Service Funds' receivables from Governmental Funds				(8,592,789)
Other receivables, net				$ 115,599,660
		Current receivable		$ 74,049,006
		Non-current receivable		41,550,654
		Total other receivable, net		$ 115,599,660

	Enterprise Funds		Total Business-type
	Major	Non-major	Activities
Business-type activities			
Taxes			
Unemployment	$ 44,772,002	$ 717,582	$ 45,489,584
Allowance for uncollectibles	(5,802,696)	-	(5,802,696)
Taxes receivable, net	$ 38,969,306	$ 717,582	$ 39,686,888
Loans and notes receivable	$ -	$ 1,207,525	$ 1,207,525
	Current receivable		$ 589,916
	Non-current receivable		617,609
	Total loans and notes receivable, net		$ 1,207,525
Federal grants	$ 518,970	$ -	$ 518,970
Other			
Accrued interest and other receivables	$ 6,167,107	$ 393,889	$ 6,560,996
Allowance for uncollectibles	(24,280)	(1,400)	(25,680)
Other receivables, net	$ 6,142,827	$ 392,489	$ 6,535,316
	Current receivable		$ 6,527,385
	Non-current receivable		7,931
	Total other receivable, net		$ 6,535,316

D. Interfund Balances

1. Due From/To Other Funds

Due from/to other funds represents amounts owed to one State fund by another, for goods sold, services received or reimbursement of costs. The balances of due from/to other funds at June 30, 2016, are as follows.

	Due to Other Funds			
	Governmental Funds			
Due From Other Funds	General Fund	Transportation Fund	Education Fund	Special Fund
General Fund	$ -	$ 6,874	$ -	$ 122,397
Transportation Fund	7,390	-	-	139,683
Education Fund	9	-	-	-
Special Fund	1,065,496	617,226	8,495	-
Federal Revenue Fund	49,519	179	-	343,931
Global Commitment Fund	30,748,620	-	-	29,189,170
Non-major Governmental Funds	6,720	-	-	9,904
Liquor Control Fund	392	-	-	54,752
Vermont Lottery Commission	-	-	5,509	-
Internal Service Funds	1,514,299	2,055,292	9,324	12,607,241
Total	$ 33,392,445	$ 2,679,571	$ 23,328	$ 42,467,078

continued below

	Due to Other Funds				
	Governmental Funds			Proprietary Funds	
Due From Other Funds	Federal Revenue Fund	Global Commitment Fund	Non-major Governmental Funds	Internal Service Funds	Unemployment Compensation Trust Fund
General Fund	$ 218,020	$ 30,670	$ 4,737	$ 18,692	$ -
Transportation Fund	566	88	48	1,012	-
Special Fund	1,778,814	81,639	44,069	814,255	-
Federal Revenue Fund	-	93,105	-	332,342	-
Global Commitment Fund	306,240	-	-	-	-
Non-major Governmental Funds	-	-	3,050	1,760	-
Non-major Enterprise Funds	-	-	-	11,165	72,024
Internal Service Funds	4,145,604	208,876	1,741,789	-	-
Total	$ 6,449,244	$ 414,378	$ 1,793,693	$ 1,179,226	$ 72,024

continued on following page

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	Due to Other Funds				
	Proprietary Funds				
Due From Other Funds	Liquor Control Fund	Vermont Lottery Fund	Non-major Enterprise Funds	Fiduciary Funds	Total
General Fund	$ 281,597	$ -	$ 2,200	$ 23,871	$ 709,058
Transportation Fund	115	-	-	-	148,902
Education Fund	-	-	-	-	9
Special Fund	1,098	-	-	-	4,411,092
Federal Revenue Fund	-	-	-	-	819,076
Global Commitment Fund	-	-	-	-	60,244,030
Non-major Governmental Funds	-	-	-	-	21,434
Liquor Control Fund	-	-	-	-	55,144
Vermont Lottery Commission	-	-	-	-	5,509
Non-major Enterprise Funds	-	-	-	-	83,189
Internal Service Funds	18,940	8,800	796	10,756	22,321,717
Total	$ 301,750	$ 8,800	$ 2,996	$ 34,627	$ 88,819,160

2. Advances To/From Other Funds

The General Fund has made cash advances to certain proprietary funds for imprest petty cash disbursements needs. The General Fund advances to other funds at June 30, 2016, are summarized below.

Proprietary Funds	
Vermont Lottery Fund	$ 300,000
Liquor Control Fund	75
Non-major Proprietary Funds	200
Total	$ 300,275

3. Interfund Receivables/Payables

The primary government cash in most funds is pooled in the State Treasurer's accounts. When a fund has a deficit cash balance, this amount is reclassified to a liability account - interfund payable. The General Fund reports the corresponding interfund receivable for the cash borrowed from the pool. The following funds at June 30, 2016, reported interfund payables. It is expected that certain amounts due the General Fund from the Internal Service Funds will not be repaid within one year. It is expected that these interfund payables will be reduced in future years through changes to billing rates and management of operations.

Proprietary Funds	
Non-major Enterprise Funds	$ 3,077,091
Internal Service Funds	62,050,470
Fiduciary Funds	
Pension and OPEB Trust Funds	23,059,216
Agency Funds	6,884
Total	$ 88,193,661

4. Inter - Primary Government/Component Unit Balances

Advances to component units consist of the amounts advanced under various agreements with component units to use the funds for specific programs. As the component unit uses the funds, the advance is reduced and expenditures are recognized by the State. At June 30, 2016, the advances to component units reported in the General Fund ($5,500,000) and Special Fund ($17,145) are advances to the Vermont Economic Development Authority for interest rate subsidies.

Due from component units/Due to primary government consist of the amounts owed to the primary government for programs administered by component units, in accordance with memoranda of understanding with State departments, and for the elimination of negative balances in the State Treasurer's pooled cash. Due from primary government/Due to component units consist of amounts appropriated from the primary government's funds to the component units that had not been disbursed by fiscal year end.

At June 30, 2016, these account balances are as follows.

	Vermont Housing & Conservation Board	Vermont Veteran's Home	Total
Due from Component Units			
General Fund	$ 2,748,959	$ 147,347	$ 2,896,306
Special Fund	-	933,104	933,104
Due to Component Units			
Non-major Governmental Funds	(1,767,227)	-	(1,767,227)
Total	$ 981,732	$ 1,080,451	$ 2,062,183

5. Interfund Transfers

Transfers between funds occur when one fund collects revenues and transfers the assets to another for expenditure or when one fund provides working capital to another fund. All transfers are legally authorized by the Legislature through either statute or Appropriation Acts.

The Education Fund received transfers from the General Fund and the Vermont Lottery Commission to support the general State grant for local education. The Special Fund received transfers from the General Fund for the Next Generation Fund, from the Transportation Fund for FEMA related projects, from the Federal Revenue Fund for the earned income tax credit for the year, and from the Global Commitment Fund for special education school-based Medicaid services. The Global Commitment Fund received transfers from the General and Special Funds for Medicaid related services provided under the Vermont Global Commitment to Health Medicaid waiver.

Interfund transfers for the fiscal year ended June 30, 2016, are as follows:

(Table on next page.)

	Transfers Out			
	Governmental Funds			
Transfers in	General Fund	Transportation Fund	Special Fund	Federal Revenue Fund
General Fund	$ -	$ -	$ 23,285,376	$ 16,216,920
Transportation Fund	-	-	151,045	-
Education Fund	303,343,381	-	9,623,609	-
Special Fund	9,079,669	1,975,902	-	21,304,720
Federal Revenue Fund	-	-	475,271	-
Global Commitment Fund	281,668,391	-	283,103,401	-
Non-major Governmental Funds	67,050,703	4,871,384	16,546,937	1,152,158
Internal Service Funds	-	162,504	-	-
Total	$ 661,142,144	$ 7,009,790	$ 333,185,639	$ 38,673,798

continued below

	Transfers Out			
	Governmental Funds		Proprietary Funds	
Transfers in	Global Commitment Funds	Non-major Governmental Funds	Liquor Control Fund	Vermont Lottery Commission
General Fund	$ -	$ 20,000	$ 1,180,623	$ -
Education Fund	-	-	-	26,415,176
Special Fund	26,141,689	-	27,794	-
Federal Revenue Fund	-	2,816,787	-	-
Total	$ 26,141,689	$ 2,836,787	$ 1,208,417	$ 26,415,176

continued below

	Transfers Out		
Transfers in	Non-major Enterprise Funds	Internal Service Funds	Total
General Fund	$ -	$ -	$ 40,702,919
Transportation Fund	-	-	151,045
Education Fund	-	-	339,382,166
Special Fund	-	635,500	59,165,274
Federal Revenue Fund	886,000	-	4,178,058
Global Commitment Fund	-	-	564,771,792
Non-major Governmental Funds	-	-	89,621,182
Internal Service Funds	-	-	162,504
Total	$ 886,000	$ 635,500	$ 1,098,134,940

E. Capital Assets

1.***Capital Asset Activity***

Capital assets activity for the fiscal year ended June 30, 2016, was as follows:

Primary Government

Governmental Activities	Beginning Balance Restated*	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, not being depreciated					
Land, land use rights, and land improvements	$ 129,341,523	$ 17,019,212	$ -	$ -	$ 146,360,735
Construction in process	645,124,910	312,326,475	(378,741,046)	(2,139,787)	576,570,552
Works of art	136,003	-	-	-	136,003
Total capital assets, not being depreciated	774,602,436	329,345,687	(378,741,046)	(2,139,787)	723,067,290
Capital assets, being depreciated					
Buildings and improvements	506,773,516	174,310,686	(11,824,684)	-	669,259,518
Machinery and equipment	360,739,817	107,349,557	(11,900,120)	-	456,189,254
Infrastructure	2,230,126,997	177,671,516	(46,880,324)	-	2,360,918,189
Total capital assets, being depreciated	3,097,640,330	459,331,759	(70,605,128)	-	3,486,366,961
Less accumulated depreciation for					
Buildings and improvements	(222,538,955)	(21,711,097)	7,263,080	-	(236,986,972)
Machinery and equipment	(149,590,515)	(40,643,003)	11,105,553	-	(179,127,965)
Infrastructure	(955,448,143)	(100,923,395)	46,713,905	-	(1,009,657,633)
Total accumulated depreciation	(1,327,577,613)	(163,277,495)	65,082,538	-	(1,425,772,570)
Capital assets, being depreciated, net	1,770,062,717	296,054,264	(5,522,590)	-	2,060,594,391
Governmental activities capital assets, net	$ 2,544,665,153	$ 625,399,951	$ (384,263,636)	$ (2,139,787)	$ 2,783,661,681

Business-type Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, not being depreciated					
Construction in process	$ 1,595,166	$ -	$ -	$ (1,312,660)	$ 282,506
Total capital assets, not being depreciated	1,595,166	-	-	(1,312,660)	282,506
Capital assets, being depreciated					
Buildings and improvements	59,935	-	-	-	59,935
Machinery and equipment	2,242,951	229,923	(189,675)	-	2,283,199
Total capital assets, being depreciated	2,302,886	229,923	(189,675)	-	2,343,134
Less accumulated depreciation for					
Buildings and improvements	(56,802)	(1,030)	-	-	(57,832)
Machinery and equipment	(1,675,627)	(204,983)	171,846	-	(1,708,764)
Total accumulated depreciation	(1,732,429)	(206,013)	171,846	-	(1,766,596)
Capital assets, being depreciated, net	570,457	23,910	(17,829)	-	576,538
Business-type activities capital assets, net	$ 2,165,623	$ 23,910	$ (17,829)	$ (1,312,660)	$ 859,044

*See Note V. F. - Accounting Changes for information on the governmental activities beginning balance restatement.

Fiduciary Activities	Beginning Balance	Additions	Deletions	Reclassifications	Ending Balance
Capital assets, being depreciated					
Machinery and equipment	$ 7,271,834	$ 1,090,020	$ -	$ -	$ 8,361,854
Total capital assets, being depreciated	7,271,834	1,090,020	-	-	8,361,854
Less accumulated depreciation for					
Machinery and equipment	(1,828,948)	(810,229)	-	-	(2,639,177)
Total accumulated depreciation	(1,828,948)	(810,229)	-	-	(2,639,177)
Fiduciary activities capital assets, net	$ 5,442,886	$ 279,791	$ -	$ -	$ 5,722,677

Current period depreciation expense was charged to functions of the Primary Government as follows:

Governmental Activities	
General Government	$ 22,518,937
Protection to Persons and Property	6,025,477
Human Services	20,800,304
Labor	153,562
General Education	29,052
Natural Resources	2,248,568
Commerce & Community Development	331,744
Transportation	100,664,587
Depreciation on capital assets held by Internal Service Funds	10,505,264
Total	$ 163,277,495

Business-type Activities	
Liquor Control	$ 204,409
Vermont Lottery Commission	1,604
Total	$ 206,013

Fiduciary Activities	
Pension Trust Funds	$ 809,171
Private Purpose Trust Fund	1,058
Total	$ 810,229

2. Impairment of Capital Assets

During the fiscal year ended June 30, 2012, the State recognized impairment losses for damage caused by Tropical Storm Irene. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, insurance recoveries during the year were used to offset the amount of loss that was recognized. During the fiscal year ended June 30, 2016, final insurance recoveries payment in the amount of $6.4 million was received and recorded as revenues.

F. Deferred Outflows and Deferred Inflows

Deferred outflows in the government-wide Statement of Net Position governmental activities consist of the unamortized balance of losses related to refunding of debt. The difference between the reacquisition price (the amount placed in escrow to pay for advance refunding) and the net carrying amount of the old debt, is reported as a deferred outflow and recognized as a component of interest over the remaining life of the old debt or the life of the new debt, whichever is shorter.

The change in deferred outflows of resources for the loss on refunding of bonds payable is as follows:

Balance, July 1, 2015	$ 8,414,684
Deferred amount on new refundings	2,757,102
Current year amortization	(1,323,008)
Balance, June 30, 2016	$ 9,848,778

Additional information regarding governmental and business-type activities' deferred outflows of resources and deferred inflows of resources related to pension liabilities can be found in Note IV. G. 4.

Deferred inflows in the governmental funds Balance Sheet consist of unavailable amounts related to revenue recognition. Revenues and other governmental fund financial resources are recognized in the accounting period in which they become both available and measurable. When an asset is recorded in governmental fund financial statements but the revenue is not available, a deferred inflow of resources is reported until such time as the revenue becomes available.

G. Long-term Liabilities

1. General Obligation & Special Obligation Bonds Payable

General obligation bonds payable have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for higher education, public and mental health, correctional facilities, environmental conservation purposes, maintenance and construction of highways, assistance to municipalities for construction of water and sewage systems, and local schools.

Once authorized by the Legislature, the State Treasurer, with the approval of the Governor, may issue general obligation bonds. The bonds are to be payable in substantially equal or diminishing amounts, the first such payment to be payable not later than five years after the date of the bonds, and the last such payment to be made no later than twenty years after the date of the bonds.

Special obligation transportation infrastructure bonds are limited obligations of the State of Vermont payable from and secured solely by a pledge of funds held in trust by the Peoples United Bank in accordance with the terms of a Trust Agreement. Funding sources for the pledged funds are funds to be received from the Motor Fuel Infrastructure Assessments as authorized by Act 50 of the 2009 legislative session. The proceeds from this issue are expected to be expended for transportation infrastructure purposes, namely the rehabilitation or replacement of State bridges, and construction of roadway capacity projects.

The changes in bonds principal payable for fiscal year 2016 are summarized in the following schedule.

	General Obligation Bonds	Special Obligation Bonds	Total Obligation Bonds
Balance, July 1, 2015	$ 585,200,000	$ 31,395,000	$ 616,595,000
Additions:			
Issuances	115,580,000	-	115,580,000
Total	115,580,000	-	115,580,000
Deductions:			
Redemptions	(48,495,000)	(1,510,000)	(50,005,000)
Defeasance	(25,250,000)	-	(25,250,000)
Total	(73,745,000)	(1,510,000)	(75,255,000)
Balance, June 30, 2016	$ 627,035,000	$ 29,885,000	$ 656,920,000

General obligation and special obligation transportation infrastructure bonds outstanding at June 30, 2016, are shown on the following page:

General Obligation and Special Obligation Transportation Infrastructure Bonds Outstanding at June 30, 2016

Date Issued	Date Series Matures	Interest Rates %	Amount of Original Issue	Maturity Value – Sources of Payments: General Fund	Transportation Fund	Special Fund	Maturity Value of Bonds Outstanding Total
General Obligation Current Interest Bonds:							
2/21/2007	7/15/2026	4.0 to 5.0	30,000,000	750,000	-	-	750,000
3/15/2007	7/15/2016	3.375 to 4.0	9,500,000	950,000	-	-	950,000
3/15/2007	7/15/2016	3.375 to 4.0	5,000,000	500,000	-	-	500,000
11/28/2007	7/15/2027	3.50 to 5.25	35,000,000	2,400,000	-	-	2,400,000
12/20/2007	7/15/2017	3.0 to 4.0	11,000,000	2,200,000	-	-	2,200,000
12/20/2007 `	7/15/2017	3.0 to 5.0	29,195,000	1,400,828	34,172	-	1,435,000
3/11/2009	3/1/2029	2.0 to 5.0	50,500,000	3,795,000	3,780,000	-	7,575,000
2/3/2010	8/15/2016	2.0 to 5.0	11,200,000	1,600,000	-	-	1,600,000
2/3/2010	8/15/2029	3.75 to 5.2	40,800,000	40,800,000	-	-	40,800,000
3/11/2010	8/15/2019	2.0 to 2.8	20,000,000	8,000,000	-	-	8,000,000
3/11/2010	8/15/2021	2.0 to 5.0	29,155,000	20,120,000	-	-	20,120,000
3/11/2010	8/15/2021	2.0 to 5.0	9,675,000	9,240,000	-	-	9,240,000
10/26/2010	8/15/2030	1.45 to 4.7	46,250,000	43,750,000	-	-	43,750,000
11/30/2010	8/15/2020	1.5 to 5.0	25,000,000	12,500,000	-	-	12,500,000
3/21/2012	8/15/2022	0.6 to 3.0	25,000,000	18,700,000	-	-	18,700,000
3/21/2012	8/15/2030	3.0 to 3.5	28,000,000	28,000,000	-	-	28,000,000
3/21/2012	8/15/2016	1.0 to 2.0	10,000,000	550,000	-	-	550,000
3/21/2012	8/15/2025	0.6 to 5.0	69,060,000	61,335,261	1,104,739	-	62,440,000
10/11/2012	8/15/2024	2.0 to 5.0	26,765,000	21,900,000	-	-	21,900,000
10/11/2012	8/15/2032	2.0 to 5.0	66,420,000	57,305,000	-	-	57,305,000
11/14/2013	8/15/2028	2.0 to 5.0	25,000,000	20,000,000	-	-	20,000,000
11/14/2013	8/15/2033	2.0 to 5.0	42,810,000	41,020,000	-	-	41,020,000
11/14/2013	8/15/2024	3.0 to 5.0	18,935,000	7,045,000	-	-	7,045,000
12/9/2014	8/15/2029	0.14 to 5.0	20,310,000	19,425,000	-	-	19,425,000
12/9/2014	8/15/2034	5.00	53,245,000	50,450,000	-	-	50,450,000
12/9/2014	8/15/2027	3.0 to 5.0	36,205,000	32,347,065	132,935	320,000	32,800,000
10/22/2015	8/15/2030	2.0 to 5.0	28,515,000	28,515,000	-	-	28,515,000
10/22/2015	8/15/2035	2.625 to 5.0	61,345,000	61,345,000	-	-	61,345,000
10/22/2015	8/15/2028	2.0 to 4.0	25,720,000	23,120,000	2,600,000	-	25,720,000
Total General Obligation Current Interest Bonds				**619,063,154**	**7,651,846**	**320,000**	**627,035,000**
Special Obligation Transportation Infrastructure Bonds:							
8/3/2010	6/15/2030	2.0 to 4.0	14,400,000	-	10,840,000	-	10,840,000
8/9/2012	6/15/2032	2.0 to 3.0	10,820,000	-	9,035,000	-	9,035,000
8/8/2013	6/15/2033	3.0 to 4.25	11,165,000	-	10,010,000	-	10,010,000
Total Special Obligation Transportation Bonds				**-**	**29,885,000**	**-**	**29,885,000**
Total General Obligation and Special Obligation Bonds				**$ 619,063,154**	**$ 37,536,846**	**$ 320,000**	**$ 656,920,000**

At June 30, 2016, there remains $82,640,070 of authorized but unissued general obligation bonds.

Future general and special obligation debt service requirements at June 30, 2016 are as follows:

Fiscal Year	General Obligation Current Interest Bonds Principal	General Obligation Current Interest Bonds Interest	Special Obligation Current Interest Bonds Principal	Special Obligation Current Interest Bonds Interest	Total
2017	$ 49,975,000	$ 24,515,078	$ 1,545,000	$ 956,413	$ 76,991,491
2018	47,345,000	21,595,941	1,590,000	913,738	71,444,679
2019	46,455,000	19,844,098	1,635,000	869,688	68,803,786
2020	44,740,000	18,000,978	1,675,000	822,663	65,238,641
2021	44,805,000	16,198,670	1,730,000	772,613	63,506,283
2022-2026	193,140,000	56,771,131	9,445,000	3,068,923	262,425,054
2027-2031	143,945,000	23,626,775	10,060,000	1,451,049	179,082,824
2032-2036	56,630,000	4,166,725	2,205,000	117,488	63,119,213
Totals	$ 627,035,000	$ 184,719,396	$ 29,885,000	$ 8,972,575	$ 850,611,971

2. Bond Refundings

During the 2016 fiscal year, the State issued general obligation refunding bonds 2015 Series C in the amount of $25,720,000 to be used solely to refund portions of the State’s general obligation bonds. Through advanced refunding, portions of the 2009 Series A Bonds were refunded with proceeds from the 2015 Series C Bonds on a current basis of $25,250,000. The total refunded amount of $25,250,000 results in defeasance of debt and the liabilities have been removed from the State’s financial statements. Total proceeds inclusive of premium for the 2015 Series C is $28,447,443, after paying $154,526 in refunding bond issuance costs, $28,292,178 was paid to the bond escrow agent. The net carrying value of the refunded debt was $25,535,076. The State has taken advantage of lower interest rates; and has decreased its aggregate debt service payments by $2,464,019 over the thirteen years ending August 2028. The economic gain (the present value of the debt service savings) for the State through this transaction is $1,876,469 using a discount rate of 2.3239098%.

During fiscal years 2016, 2015, and 2012, the State defeased “in-substance” certain general obligation bonds by issuing new bonds and by placing the proceeds of these new bonds in an irrevocable trust. These trust assets are utilized to make all debt service payments on the defeased bonds. Accordingly, these trust assets and the liability for the defeased bonds are not included in the State’s financial statements.

The total amount of defeased bonds remaining outstanding at June 30, 2016, is $70,750,000.

3. Lease Commitments

A. Operating Leases

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting purposes. It should also be noted that the State is currently negotiating a small number of operating leases on which rent is being paid on a month-by-month basis and for which there is no signed agreement. These leases have not been included in the following table.

Total lease payments paid by the primary government in fiscal year 2016 was $17,781,298 for operating leases of which $17,654,025 was paid for property leases, $117,044 for equipment leases and $7,184 for non-cancellable land rentals, and $3,045 for cancelable land rentals.

The following is a summary of the estimated future minimum rental commitments under operating leases for real property and equipment at June 30, 2016:

	Primary Government		
Fiscal Year	Non-Cancelable Leases	Cancelable Leases	Total
2017.............	$ 12,787,079	$ 2,845	$ 12,789,924
2018.............	11,590,165	2,845	11,593,010
2019.............	10,254,591	2,845	10,257,436
2020.............	9,483,282	2,845	9,486,127
2021.............	8,810,766	1,645	8,812,411
2022 - 2026....	21,680,200	2,225	21,682,425
2027 - 2031....	1,275,565	2,225	1,277,790
Totals	$ 75,881,648	$ 17,475	$ 75,899,123

B. Capital Leases

The State has entered into capital lease arrangements to acquire additional office space and to make energy efficiency improvements with a present value of minimum lease payments totaling $14,040,697. The majority of this total is from a building lease between ReArch Company, LLC and the State of Vermont. The agreement is one piece of a multi-part downtown redevelopment strategy for the City of Saint Albans. Various State Agencies and Departments commenced leasing the new office space in December, 2014. The lease commitment assumes a 20 year term, however, the agreement has an option that would allow the State to purchase the property on the tenth anniversary of the lease. The present value of the minimum lease payments for this building lease is $10,235,199. In addition, the State continues to lease from HLFB, Inc., for energy efficiency projects for State buildings located in Montpelier, Waterbury and Middlesex. The present value of the minimum lease payments from the HLFB agreement is $3,776,619.

Capital lease payments for the primary government in 2016 totaled $1,172,874 with $7,935 for machinery and equipment and $400,973 for building improvements, and $763,966 for the building lease in Saint Albans.

The future minimum lease obligation and the net present value of the minimum lease payments at June 30, 2016 are as follows:

Fiscal Year	Primary Government
2017..	$ 1,195,518
2018..	1,218,029
2019..	922,040
2020..	835,079
2021..	853,868
2022 - 2026	4,566,312
2027 - 2031	5,103,666
2032 - 2036	3,825,650
Total minimum lease payments......................	18,520,162
Less interest...	(7,599,691)
Present value of minimum lease payments....	$ 10,920,471

4. Retirement Plans and Other Postemployment Benefits

In accordance with State statutes, the State Treasurer and the individual retirement systems' Board of Trustees administer the State's three defined benefit pension plans and two defined contribution plans. In addition to providing pension benefits, the State also offers other postemployment medical insurance benefit plans to retirees of the Vermont State Retirement System and State Teachers' Retirement System. Disclosures relating to defined benefit pension plans are included in 4. A. below, those relating to defined contribution pension plans are included in 4. B. below, and those relating to other postemployment benefits (OPEB) are included in 4. C. below.

These systems are considered part of the State's reporting entity and are included in the accompanying financial statements as pension and other postemployment benefit trust funds in the fiduciary fund type. There are no separate stand-alone financial statements issued for these plans.

Summary of significant accounting policies – basis of accounting and valuation of investments
The financial statements for the pension and other postemployment benefit trust funds are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are due. The employers' contributions are recognized when legally due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from the plans' net position have been determined on the same basis as they are reported by the pension plans. All investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2016. Securities without an establish market are reported at estimated fair value. Additional information on the plans' investments may be found in Note IV. B. - Investments.

A. Defined Benefit Retirement Plans

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into three sections. The first section (Disclosures about the Defined Benefit Retirement Plans) offers disclosures about the plans themselves - descriptions of the plans and who is covered; an analysis of the membership of the various groups of the various plans as of the end of the fiscal year; a discussion of benefits provided by each of the plans, and the financial statements of each of the three defined benefit plans.

The second section (Financial Reporting of Net Pension Liability and Pension Expense by the Employer as required by GASB Statement No. 68) provides funding information regarding the pension plans that are required by GASB Statement No. 68 - changes in net pension liability, balances of deferred pension outflows of resources and deferred pension inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of pension expense for the year.

The third section (Net Pension Liability and Disclosures required by GASB Statement No. 67) provides the information that is required by GASB Statement No. 67 - the calculation of the net pension liability; the actuarial assumptions and census data that were used in calculating that NPL; the discount rate that was used in the calculations; and the sensitivity of the NPL to changes in the discount rate. The Statement of Net Plan Position and the Statement of Changes in Plan Net Position for the fiscal year ended June 30, 2016 are included at the end of this section.

1. Disclosures about the Defined Benefit Retirement Plans

This first section provides the disclosures about the defined benefit retirement plans required by GASB Statement No. 67, including the plan descriptions, benefits and membership at June 30, 2016.

Plan Descriptions

The Vermont State Retirement System (VSRS) (3 V.S.A. Chapter 16) is a single-employer defined benefit pension plan which covers substantially all general State employees and State Police, except employees hired in a temporary capacity. Membership in the system is a condition of employment.

Management of the plan is vested in the VSRS Retirement Board, which consists of an appointee of the governor; state treasurer; commissioner of human resources; commissioner of finance and management; three members of the Vermont State Employees' Association who are active members of the system (each chosen by such association in accordance with its articles of association) and one retired state employee who is a beneficiary of the system (to be elected by the Vermont Retired State Employees' Association).

The State Teachers' Retirement System (STRS) (16 V.S.A. Chapter 55) is a cost-sharing multiple-employer defined benefit pension plan with a special funding situation. It covers nearly all public day school and nonsectarian private high school teachers and administrators as well as teachers in schools and teacher training institutions within and supported by the State that are controlled by the State Board of Education. Membership in the system for those covered classes is a condition of employment. During the year ended June 30, 2016, the retirement system consisted of 274 participating employers.

Management of the plan is vested in the STRS Board of Trustees, which consists of the secretary of education (ex-officio); the state treasurer (ex-officio); the commissioner of financial regulation (ex-officio); two trustees and one alternate who are members of the system (each elected by the members of the system under rules adopted by the board) and one trustee and one alternate who are retired members of the system receiving retirement benefits (who are elected by the Association of Retired Teachers of Vermont).

The Vermont Municipal Employees' Retirement System (MERS) (24 V.S.A., Chapter 125) is a cost-sharing, multiple-employer defined benefit pension plan designed for school districts and other municipal employees that work on a regular basis and also includes employees of museums and libraries if at least half of that institution's operating expenses are met by municipal funds. An employee of any employer that becomes affiliated with the system may join at that time or at any time thereafter. Any employee hired subsequent to the effective participation date of their employer who meets the minimum hourly requirement is required to join the system. During the year ended June 30, 2016, the retirement system consisted of 441 participating employers.

Management of the plan is vested in the MERS Retirement Board of Trustees, which consists of the state treasurer; two employee representatives who at all times during their term of office are contributing members and have completed five years of creditable service (each elected by the membership of the system); one employer representative who shall at all times during their term of office be a member of the governing body, chief executive officer or supervisor of a participating employer (elected by the membership of the system) and one employer representative who shall at all times during their term of office be a member of the governing body, chief executive officer or supervisor of a participating employer (appointed by the governor from candidates jointly submitted by the Vermont League of Cities and Towns and the Vermont School Boards Association).

Copies of each individual defined benefit retirement plan's annual actuarial valuation report, and information describing each defined benefit plan's provisions in greater detail, are available for inspection at the Retirement Division, Office of the State Treasurer, 109 State Street, Montpelier, Vermont 05609-6901.

Membership of the Vermont State Retirement System is made up of the following:

- general employees who did not join the non-contributory system on July 1, 1981 (Group A);
- State police, law enforcement positions, and airport firefighters (Group C);
- judges (Group D); and
- terminated vested members of the non-contributory system and all other general employees (Group F).

Membership of the State Teachers' Retirement System is made up of the following:

- general teachers who did not join the non-contributory system on July 1, 1981 (Group A); and
- terminated vested members of the non-contributory system and all other general teachers (Group C).

Membership of the Vermont Municipal Employees' Retirement System is made up of the following:

- general employees whose legislative bodies have not elected to become a member of Group B or Group C (Group A);
- general employees whose legislative bodies have elected to become members of Group B or Group C (Group B & C); and
- sworn police officers, firefighters and emergency medical personnel (Group D);

At June 30, 2016, the State Treasurer's Office reports the following membership of each of the defined benefit plans by status and group.

Vermont State Retirement System	**Total**	**Group A**	**Group C**	**Group D**	**Group F**
Vested Active Members	5,285	4	333	40	4,908
Non-vested Active Members	3,151	-	117	12	3,022
Total Active Members	8,436	4	450	52	7,930
Retirees and beneficiaries currently receiving benefits	6,542	192	416	62	5,872
Terminated employees entitled to benefits but not yet receiving them (vested)	728	4	27	1	696
Inactive Members	1,012	-	33	1	978
Total Members	16,718	200	926	116	15,476

Vermont State Teachers Retirement System	**Total**	**Group A**	**Group C**
Vested Active Members	7,435	5	7,430
Non-vested Active Members	2,484	-	2,484
Total Active Members	9,919	5	9,914
Retirees and beneficiaries currently receiving benefits	8,763	357	8,406
Terminated employees entitled to benefits but not yet receiving them (vested)	747	3	744
Inactive Members	2,454	2	2,452
Total Members	21,883	367	21,516

Vermont Municipal Employees Retirement System	Total	Group A	Group B	Group C	Group D
Vested Active Members	4,073	1,541	1,942	479	111
Non-vested Active Members	2,893	1,092	1,425	330	46
Total Active Members	6,966	2,633	3,367	809	157
Retirees and beneficiaries currently receiving benefits	2,734	1,100	1,294	309	31
Terminated employees entitled to benefits but not yet receiving them (vested)	810	457	325	23	5
Inactive Members	2,099	1,085	920	82	12
Total Members	12,609	5,275	5,906	1,223	205

Contributions

Vermont State Retirement System. Title 3 VSA Chapter 16 of Vermont Statutes grant the authority to the retirement board to review annually the amount of state contribution recommended by the actuary of the retirement system as necessary to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. Employee contributions are established in Chapter 16. Contribution rates for the fiscal year ended June 30, 2016 for the various groups are as follows:

Vermont State Retirement System	Group A	Group C	Group D	Group F
Employee Contributions	6.40% of gross payroll	8.28% of gross payroll	6.40% of gross payroll	6.40% of gross payroll
Employer Contributions	10.27% of gross payroll	10.27% of gross payroll	10.27% of gross payroll	10.27% of gross payroll

State Teachers' Retirement System. Title 16 VSA Chapter 55 of Vermont Statutes grant the authority to the board of trustees of the system to annually review the amount of State contribution recommended by the actuary of the retirement system to achieve and preserve the financial integrity of the fund, and submit this recommendation to the Governor and both houses of the Legislature. The board of trustees also certifies the rates of contribution payable by employees. Contribution rates for the fiscal year ended June 30, 2016 for the various groups are as follows:

Vermont State Teachers Retirement System	Group A	Group C - Group #1	Group C - Group #2
Employee Contributions	5.50% of gross salary	5.00% of gross salary	5.00% of gross salary for members with at least 5 years of service as of 7/1/2014, and 6.00% of gross salary for members with less than 5 years of service as of 7/1/2014
Non-employer Contributions	Appropriation based on June 2014 actuarial recommendation of amount needed to fund benefits earned during the year (1.70% of projected payroll), plus amount needed to liquidate the accrued liability over the remaining amortization period ($62,589,336)		

Vermont Municipal Employees Retirement System. Title 24 VSA Chapter 125 of Vermont Statutes grant the authority to the retirement board to annually review the amount of municipalities contribution recommended by the actuary of the retirement system to achieve and preserve the financial integrity of the fund, and certify the rates of contributions payable by employers. The board of trustees also certifies the rates of contribution payable by employees. Contribution rates for the fiscal year ended June 30, 2016, for the various groups are as follows:

Vermont Municipal Employees Retirement System	Group A	Group B	Group C	Group D
Employee Contributions	2.5% of gross salary	4.875% of gross salary	9.875% of gross salary through 12/31/15, 10.0% of gross salary effective 1/1/2016	11.35% of gross salary
Employer Contributions	4% of gross salary	5.50% of gross salary	7.125% of gross salary through 12/31/2015, 7.25% of gross salary effective 1/1/2016	9.85% of gross salary

Benefits provided

Benefit terms are established or amended in accordance with 3 V.S.A. Chapter 16 for the Vermont State Retirement System, in accordance with 16 V.S.A. Chapter 55 for the Vermont State Teachers Retirement System, and in accordance with 24 V.S.A Chapter 125 for the Vermont Municipal Employees Retirement System.

Details of the pension benefits provided by each of the retirement plans are included on the next 3 pages.

(Notes continue on next page.)

Vermont State Retirement System	Group A	Group C	Group D	Group F *Hired Before 7/1/08*	Group F *Hired On or After 7/1/08*
Average Final Compensation (AFC)	Highest 3 consecutive years, including unused annual leave payoff	Highest 2 consecutive years, including unused annual leave payoff	Final salary at retirement	Highest 3 consecutive years, excluding unused annual leave payoff	Same
Benefit Formula	1.67% X AFC x creditable service	2.5% X AFC x creditable service up to 20 years	3.33% X AFC x creditable service (after 12 years in Group D)	1.25% X AFC x service prior to 12/31/90 + 1.67% X AFC x service after 1/1/91	Same
Maximum Benefit Payable	100% of AFC	50% of AFC	100% of Final Salary	50% of AFC	60% of AFC
Normal Retirement (no reduction)	Age 65 with 5 years of service or 62 with 20 years of service	Age 55 (mandatory) with 5 years of service	Age 62 with 5 years of service	Age 62 or with 30 years of service	Age 65 or a combination of age & service credit that equals 87
Early Retirement Eligibility	Age 55 with 5 years of service or 30 years of service (any age)	Age 50 with 20 years of service	Age 55 with 5 years of service or 30 years of service (any age)	Age 55 with 5 years of service	Same
Early Retirement Reduction	Actuarially reduced benefit if under 30 years of service	No reduction	3% per year from age 62	No reduction if 30 years of service; otherwise, 6% per year preceding age 62	No reduction if age 65 with 5 years of service, or if combination of age and service equal to 87; otherwise, monthly reduction preceding age 65 based on years of service: 35+ years - 1/8th of 1%; 30-34 years - 1/4th of 1%; 25-29 years - 1/3rd of 1%;
Post-Retirement COLA*	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	Full CPI, from a minimum of 1% up to a maximum of 5%, after 12 months of retirement	For members retiring on or after 07/01/2008, 100% of a fiscal year CPI increase. For members who retired before 07/01/2008, 50% of a fiscal year CPI increase. Annual COLA adjustments have a minimum of 1% and maximum of 5%	Annual COLA adjustments are 100% of a fiscal year CPI increase, with a minimum of 1% and maximum of 5%"
Disability Benefit	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC, with children's benefit of 10% of AFC to maximum of three concurrently	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC	Same
Death-in-Service Benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	70% of accrued benefit with no actuarial reduction applied, plus children's benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Same

* Note: Annual post-retirement COLA applies beginning the first January after receiving at least 12 pension payments and reaching normal retirement age.

Vermont State Teachers Retirement System	Group A	Group C - Group #1 *	Group C - Group #2 ++
Average Final Compensation (AFC)	Highest 3 consecutive years, including unused annual leave, sick leave, and bonus/incentives	Highest 3 consecutive years, excluding all payments for anything other than service actually performed	Highest 3 consecutive years, excluding all payments for anything other than service actually performed
Benefit Formula	1.67% X creditable service X AFC	1.25% X service prior to 6/30/90 X AFC + 1.67% X service after 7/1/90 X AFC	1.25% X service prior to 6/30/90 X AFC + 1.67% X service after 7/1/90 X AFC, 2% X AFC after attaining 20.0 years
Maximum Benefit Payable	100% of AFC	53.34% of AFC	60% of AFC
Normal Retirement (no reduction)	Age 60 or with 30 years of service	Age 62 or with 30 years of service	Age 65 or when the sum of age and service credit equals 90
Early Retirement Eligibility	Age 55 with 5 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service
Early Retirement Reduction	Actuarial reduction	6% per year from age 62	Actuarial reduction
Post-Retirement COLA	Full CPI, up to a maximum of 5%, after 12 months of retirement; minimum of 1%	50% CPI, up to a maximum of 5% after 12 months of retirement or with 30 years; minimum of 1%	50% CPI, up to a maximum of 5% minimum of 1% after 12 months of normal retirement or age 65
Disability Benefit	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC	Unreduced, accrued benefit with minimum of 25% of AFC
Death-in-Service Benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefit up to maximum of three concurrently	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied plus children's benefits up to maximum of three concurrently

* Group #1 are members who were within 5 years of normal retirement (age 62 or 30 years of service) on June 30, 2010.

++ Group #2 members who were under 57 years of age or had less than 25 years of service on June 30, 2010.

(Notes continue on next page.)

Vermont Municipal Employees Retirement System	Group A	Group B	Group C	Group D
Average Final Compensation (AFC)	Highest 5 consecutive years	Highest 3 consecutive years	Highest 3 consecutive years	Highest 2 consecutive years
Benefit Formula	1.4% X creditable service X AFC	1.7% X creditable service X AFC + previous service:1.4% X Group A X AFC	2.5% X creditable service X AFC + previous service:1.4% X Group A X AFC; 1.7% X Group B X AFC	2.5% X creditable service X AFC + previous service:1.4% X Group A X AFC; 1.7% X Group B X AFC; 2.5% X Group C X AFC
Maximum Benefit Payable	60% of AFC	60% of AFC	50% of AFC	50% of AFC
Normal Retirement (no reduction)	Age 65 with 5 years of service or 55 with 35 years of service	Age 62 with 5 years of service or 55 with 30 years of service	Age 55 with 5 years of service	Age 55 with 5 years of service
Early Retirement Eligibility	Age 55 with 5 years of service	Age 55 with 5 years of service	N/A	Age 50 with 20 years of service
Early Retirement Reduction	6% per year from age 62 **	6% per year from age 65 **	N/A	No reduction
Post-Retirement COLA	50 % of CPI, up to 2% per year	50 % of CPI, up to 3% per year	50 % of CPI, up to 3% per year	50 % of CPI, up to 3% per year
Disability Benefit	Unreduced, accrued benefit	Unreduced, accrued benefit	Unreduced, accrued benefit	Unreduced, accrued benefit plus children's benefit representing 10% of AFC to maximum of three concurrently
Death-in-Service Benefit	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied	Disability benefit or early retirement benefit, whichever is greater, with 100% survivorship factor applied	70% of accrued benefit with no actuarial reduction applied, plus children's benefit

** A special early retirement factor of 3% per year only for municipal police officers who have attained age 60.

2. Employer Reporting of Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension Plans as required by GASB Statement No. 68

This section includes the information that is required to be reported by employers per GASB Statement No. 68. It reports information regarding the calculation of the State's net pension liability, including changes during the measurement period in both total pension liability and plan net position; balances in the various components of deferred pension outflows of resources and deferred pension inflows of resources and the amounts to be recognized in pension expense in future periods; and the calculation of pension expense. In addition to presenting the NPL, this section also includes information on the actuarial assumptions and census data used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

The State is responsible for 98.3289% of the VSRS net pension liability. The Vermont Veterans' Home (a discrete component unit) is responsible for 1.6711% of the VSRS net pension liability. The State is responsible for 100% of the STRS net pension liability as a non-employer contributing entity. The information is presented in this section is for those two plans. The State does not participate in the MERS plan, so no employer information is presented for that plan.

Reporting Date, Measurement Date, and Valuation Date (Employer Reporting)

Net pension liabilities, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the State's reporting date (June 30, 2016) and for the State's reporting period (the year ended June 30, 2016). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date of June 30, 2016, the State has chosen to use the end of the prior fiscal year (June 30, 2015) as the measurement date, and the year ended June 30, 2015 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. The State has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of June 30, 2014, to the measurement date of June 30, 2015.

Net Pension Liabilities (Employer Reporting)

The net pension liability (NPL) is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the pension plan's fiduciary net position. The changes in the components for the measurement period are as follows (amounts are in thousands):

	Vermont State Retirement System Increase (Decrease)			State Teachers' Retirement System Increase (Decrease)		
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a-b)	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a-b)
Balances - June 30, 2014	$ 2,008,888	$ 1,657,246	$ 351,642	$ 2,663,802	$ 1,705,365	$ 958,437
Changes for the year:						
Service cost	41,786	-	41,786	33,614	-	33,614
Interest	164,405	-	164,405	215,447	-	215,447
Difference between expected and actual experience	3,979	-	3,979	20,003	-	20,003
Changes of assumptions	62,247	-	62,247	57,489	-	57,489
Contributions - employer	-	55,881	(55,881)	-	72,909	(72,909)
Contributions - employee	-	33,296	(33,296)	-	34,864	(34,864)
Net investment income	-	(8,485)	8,485	-	(7,567)	7,567
Benefit payments, including refunds of contributions	(111,396)	(111,396)	-	(150,734)	(150,734)	-
Administrative expenses	-	(1,858)	1,858	-	(2,259)	2,259
Other changes	-	177	(177)	-	538	(538)
Net changes	161,021	(32,385)	193,406	175,819	(52,249)	228,068
Balances - June 30, 2015	$ 2,169,909	$ 1,624,861	$ 545,048	$ 2,839,621	$ 1,653,116	$ 1,186,505
Plan fiduciary net position as a percentage of total pension liability			74.88%			58.22%

Proportionate Share of Net Pension Liability

	VSRS			
		Proportionate Share		
	Amount	2015	2014	Change
Governmental activities	$ 531,393	97.4949%	97.3817%	0.1132%
Business type activities	4,546	0.8340%	0.8538%	-0.0198%
Discrete component unit	9,109	1.6711%	1.7645%	-0.0934%
Total net pension liability	$ 545,048	100.0000%	100.0000%	

Additional information regarding the changes in the net pension liability for the year ended June 30, 2016 can be found in the Required Supplementary information immediately following these notes to the financial statements.

Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources (Employer Reporting)

Most changes in the net pension liability are included in pension expense during the year of change. Changes resulting from current-period service cost, interest on the total pension liability, and changes in benefit terms are required to be included in pension expense immediately. Similarly, projected earnings on the pension plan's investments are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods, depending on the nature of the change.

The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that these changes result from the use of estimates, where probabilities of events range from 0 to 100 percent, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that pensions arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related pension measurements are viewed in the context of ongoing, career-long employment relationships.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources, and will be recognized as a reduction of the net pension liability at June 30, 2017. As of June 30, 2016, the State reported the following deferred pension outflows of resources and deferred pension inflows of resources (amounts are in thousands):

	Primary Government		Discrete Component Units	
Source	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 18,263	$ -	$ 55	$ -
Changes of assumptions	94,122	-	867	-
Net differences between projected and actual earnings on plan investments	223,983	136,460	1,862	1,189
Change in proportion and the effect of certain employer contributions on the employer's net pension liability	713	155	-	558
Employer contributions made subsequent to the measurement date	126,682	-	890	-
Total	$ 463,763	$ 136,615	$ 3,674	$ 1,747

The amount reported as deferred pension outflows of resources resulting from employer contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability at June 30, 2017 and is included in the table below. The deferred pension outflows of resources and deferred pension inflows of resources, as discussed on the previous page, will be recognized in pension expense as follows (amounts are in thousands):

Year Ended June 30	Primary Government	Discrete Component Units
2017	$ 167,543	$ 1,018
2018	40,861	128
2019	40,861	128
2020	66,974	524
2021	10,909	129
Total	$ 327,148	$ 1,927

Pension Expense (Employer Reporting)

As discussed above, most changes in the net pension liability are included in pension expense in the year of change, including changes resulting from current-period service cost, interest on the total pension liability, changes in benefit terms, and projected earnings on the pension plan's investments. Other changes in net pension liability are recorded as deferred pension outflows of resources and deferred pension inflows of resources, and included in pension expense on a systematic and rational manner over current and future periods. Pension expense for the year ended June 30, 2016, is as follows (amounts are in thousands):

	Primary Government	Component Units
Service cost	$ 74,702	$ 698
Interest on total pension liability	377,105	2,747
Employee contributions	(67,603)	(556)
Plan administrative costs and other changes	3,373	28
Projected earnings on plan investments	(264,069)	(2,186)
Recognition (amortization) of deferred pension outflows of resources:		
Difference between expected and actual experience	5,653	11
Change in assumptions	24,573	173
Net difference between projected and actual investment earnings	55,996	466
Changes in proportional share of contributions	162	-
Recognition (amortization) of deferred pension inflows of resources:		
Net difference between projected and actual investment earnings	(45,487)	(396)
Changes in proportional share of contributions	(36)	(126)
Total Pension Expense	$ 164,369	$ 859

Actuarial Methods and Assumptions (Employer Reporting)

Methods and assumptions used to determine pension expense and total pension liability are based on a valuation date of June 30, 2014 for VSRS and STRS.

	VSRS	STRS
Valuation date	6/30/2014	6/30/2014
Inflation assumptions	3.00% - 3.25%	3.00% - 3.25%
Investment rate of return	7.95%	7.95%
Projected salary increases	Group C: 4.67% - 7.79%; Groups A, D & F: 4.5% - 7.79%	4.25% - 8.40%
Cost of living adjustments	Groups A, C & D: 3%; Group F: 1.5% and Group F retiring after 7/1/09: 3%	Group A: 3%; Group C: 1.5%
Post Retirement Adjustments Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C, D - 5%	Group A - 5%
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in the CPI but not in excess of percentage indicated	Group F - 5%	Group C - 5%
Assumed annual rate of cost-of-living increases	For those eligible for increases of 100% of CPI change - 3%	For those eligible for increases of 100% of CPI change - 3%
	For those eligible for increases of 50% of CPI change - 1.5%	For those eligible for increases of 50% of CPI change - 1.5%
Census Data for 2014 Valuation Retired members or beneficiaries currently receiving benefits	5,980	8,086
Inactive members	867	2,410
Active members	8,325	9,952
Terminated vested members	732	740

Mortality rates are based as follows for the various retirement systems:
Vermont State Retirement System. Mortality rates for active employees were based on the RP-2000 Mortality Table for Employees using Scale AA to 2016; rates for retirees and beneficiaries were based on the RP-2000 Mortality Tables for Employees and Healthy Annuitants projected with Scale AA, to 2010; and rates for disabled retirees were based on the RP-2000 Combined Mortality Tables for Employees and Healthy Annuitants with a three-year set-forward.

State Teachers' Retirement System. Mortality rates for active employees were based on the RP-2000 Mortality Table for Employees, with adjustments for mortality improvements based on Scale AA, to 2016; rates for retirees, terminated vested members and beneficiaries were based on the 1995 Buck Mortality Tables set back three years for males and one year for females; and rates for disabled retirees were based on the RP-2000 Disabled Life Table projected with Scale AA, to 2016.

Except for the expected rate of return on assets, the actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2010. Actuarial valuations attempt to estimate costs associated with the pension system based on a number of demographic, economic, and retirement experience assumptions. To the extent assumptions are at variance to experience, this can result in actuarial gains and losses ultimately impacting contribution rates and the development of the actuarially required contribution. Experience studies are required by statute to be conducted every five years to review actual experience in comparison to these assumptions and to provide recommended changes to assumptions.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. These best estimate ranges were combined to produce forecasts of the short, intermediate, and longer term horizons by weighting the expected future nominal rates of return by the target asset allocation percentage. The various time horizons in the forecast are intended to capture more recent economic and capital market conditions as well as other plausible environments that could develop in the future over economic cycles. To reflect this in the rate-of-return assumption, a Select and Ultimate assumption setting approach, which is cited in Section 3.8.4 of Actuarial Standard of Practice No. 27 as an alternative to a single assumed rate of return, is employed. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2015 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Equity	32.00%	8.61%
Fixed Income	35.00%	1.91%
Alternatives	17.00%	6.93%
Multi-Strategy	16.00%	4.88%

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.0%.

Discount Rate (Employer Reporting)

The discount rate used to measure the total pension liability as of June 30, 2015 was 7.95% for the VSRS and STRS. Amounts for the prior year were 8.22%, and 8.15%, respectively. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 68.

The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expenses for the year ended June 30, 2015 was (0.50%) for VSRS, and (0.40%) for STRS. Amounts for the prior year were 14.05%, and 13.83% respectively. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Employer Reporting)

The following presents the net pension liability of the various retirement systems (at the June 30, 2015 measurement date), calculated using the discount rates determined above, as well as what the systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (amounts are in thousands):

	VSRS	STRS
One-percent decrease		
Discount rate	6.95%	6.95%
Net pension liability	$ 802,737	$ 1,506,647
Net pension liability, as reported		
Discount rate	7.95%	7.95%
Net pension liability	$ 545,048	$ 1,186,505
One-percent increase		
Discount rate	8.95%	8.95%
Net pension liability	$ 328,082	$ 917,934

3. Net Pension Liability and Disclosures required by GASB Statement No. 67 (Plan Reporting)

This section includes the information that is required to be presented by GASB Statement No. 67, reporting on the financial statements for the defined benefit plans for the year ended June 30, 2016. Separate valuations were performed by the State's actuary to calculate the total pension liability in accordance with this standard for financial reporting by pension plans and calculates the net pension liability (NPL). The plans elected to base the valuations on plan data as of June 30, 2015 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year end of June 30, 2016. In addition to presenting the NPL, this section also includes information on the actuarial assumptions used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

Net Pension Liabilities (Plan Reporting)

The components of the net pension liabilities of the defined benefit retirement plans at June 30, 2016, are shown as follows with amounts in thousands:

	Vermont State Retirement System	Vermont State Teachers' Retirement System	Vermont Municipal Employees Retirement System
Total pension liability	$ 2,271,588	$ 2,930,423	$ 675,711
Plan fiduciary net position	(1,609,650)	(1,620,900)	(547,015)
Net pension liability	$ 661,938	$ 1,309,523	$ 128,696
Plan fiduciary net position as a percentage of total pension liability	70.86%	55.31%	80.95%

Actuarial Assumptions (Plan Reporting)

The June 30, 2016 total pension liability was determined by rolling forward the total pension liability as of June 30, 2015 to June 30, 2016, using the actuarial assumptions and methods used in the June 30, 2015 actuarial valuation of the plans. The actuarial assumptions used were based on the experience study that was performed for the five-year period ended June 30, 2014.

Additional information regarding changes in the net pension liability for the year ended June 30, 2016 can be found in the Required Supplementary Information section immediately following these notes to the financial statements.

The long-term expected rate of return on pension plan investments was determined using best-estimate ranges of expected future nominal rates of return (expected returns, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Equity	35.00%	8.54%
Fixed Income	32.00%	2.36%
Alternatives	16.00%	8.35%
Multi-Strategy	17.00%	4.90%

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 3.0%.

Discount Rate (Plan Reporting)

The discount rate used to measure the total pension liability was 7.95% for the VSRS, STRS, and MERS. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made in accordance with the current funding policy. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current System members. The assumed discount rate has been determined in accordance with the method prescribed by GASB Statement No. 67.

The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expenses for the year ended June 30, 2016 was 1.44% for VSRS, 1.69% for STRS, and 1.56% for MERS. Amounts for the prior year were (0.50%), (0.40%) and (0.51%) respectively. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate (Plan Reporting)

The following presents the net pension liability of the various retirement systems, calculated using the discount rates determined above, as well as what the systems' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (amounts are in thousands):

	VSRS	STRS	MERS
One-percent decrease			
Discount rate	6.95%	6.95%	6.95%
Net pension liability	$ 938,167	$ 1,638,648	$ 213,648
Net pension liability, as reported			
Discount rate	7.95%	7.95%	7.95%
Net pension liability	$ 661,938	$ 1,309,523	$ 128,696
One-percent increase			
Discount rate	8.95%	8.95%	8.95%
Net pension liability	$ 430,863	$ 1,033,302	$ 57,566

The defined benefit financial statements are on the following two pages.

(Notes continue on next page.)

Statement of Plan Net Position
Defined Benefit Plans
June 30, 2016

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Assets			
Cash and short term investments	$ 21,054,202	$ 22,477,606	$ 7,476,917
Receivables			
Contributions - current	5,444,914	4,875,203	3,871,744
Contributions - non-current	-	-	6,809,013
Investments sold	52,301,709	50,975,787	17,511,302
Interest and dividends	52	103	388,997
Due from other funds	52,736	6,365	58,805
Other	-	1,363,325	34,056
Investments			
Fixed income	231,397,946	224,006,945	77,520,255
Equities	268,604,643	258,899,400	91,501,085
Mutual and commingled funds	946,085,568	945,763,208	317,975,738
Real estate and venture capital	165,257,077	191,270,121	50,306,157
Prepaid expenses	36,479	44,586	20,422
Capital assets, net of depreciation	2,178,367	2,592,167	950,782
Total assets	1,692,413,693	1,702,274,816	574,425,273
Liabilities			
Accounts payable	2,206,030	2,712,075	435,022
Investments purchased	80,542,803	78,312,607	26,961,756
Unearned revenue	-	331,548	-
Due to other funds	13,275	16,890	12,385
Interfund loan payable	1,433	1,947	997
Total liabilities	82,763,541	81,375,067	27,410,160
Net position held in trust for employees' pension benefits	$ 1,609,650,152	$ 1,620,899,749	$ 547,015,113

Statement of Changes in Plan Net Position
Defined Benefit Plans
For the Fiscal Year Ended June 30, 2016

	Vermont State Retirement Fund	State Teachers' Retirement Fund	Vermont Municipal Employees' Retirement Fund
Additions			
Contributions			
Employer - pension benefit	$ 54,347,060	$ -	$ 15,235,742
Non-employer - pension benefit	-	73,225,064	-
Plan member	34,055,217	35,408,763	15,226,948
Transfers from other pension trust funds	293,444	464,668	351,434
Other revenues	-	3,722,805	-
Total contributions	88,695,721	112,821,300	30,814,124
Investment Income			
Net appreciation in fair value of investments	76,251,898	77,698,805	25,231,184
Income from pooled investments	(68,486,239)	(68,582,592)	(22,261,017)
Dividends	9,759,977	10,516,720	3,126,135
Interest income	4,878,035	4,838,270	2,164,305
Other income	247,953	239,717	49,859
Total investment income	22,651,624	24,710,920	8,310,466
Less Investment Expenses			
Investment managers and consultants	4,689,199	4,833,650	1,533,533
Total investment expenses	4,689,199	4,833,650	1,533,533
Net investment income	17,962,425	19,877,270	6,776,933
Total additions	106,658,146	132,698,570	37,591,057
Deductions			
Retirement benefits	115,880,147	160,689,363	22,912,363
Refunds of contributions	3,320,185	1,525,958	1,704,609
Death claims	334,702	430,870	303,236
Transfers to other pension trust funds	558,552	105,218	668,676
Depreciation	307,042	366,341	135,788
Administration expenses	1,468,605	1,797,512	755,014
Total deductions	121,869,233	164,915,262	26,479,686
Change in net position	(15,211,087)	(32,216,692)	11,111,371
Net position held in trust for employees' pension benefits			
July 1, 2015	1,624,861,239	1,653,116,441	535,903,742
June 30, 2016	$ 1,609,650,152	$ 1,620,899,749	$ 547,015,113

B. Defined Contribution Retirement Plans

Retirement Plan Descriptions

In accordance with Title 3 of the Vermont Statutes Annotated, Chapter 16A, the State established an optional single employer defined contribution pension plan for exempt State employees effective January 1, 1999. The Vermont State Defined Contribution Plan is reported in the Pension Trust Funds. Exempt employees hired after January 1, 1999, have a one-time opportunity to elect either the defined benefit or defined contribution plan. Employees are required to contribute at the rate of 2.85%. The State is required to contribute to each employee's account at the rate of 7% of the employee's compensation for each payroll period. An employee becomes vested in the plan after completion of 23 months of creditable service as a State employee. During the fiscal year ended June 30, 2016, member contributions totaled $733,928 with State employer contributions at $1,802,627. As of June 30, 2016, the Vermont State Defined Contribution Plan's net position totaled $57,183,877 and there were 602 participants.

The Vermont Municipal Employees' Defined Contribution Plan (24 V.S.A. 5070), a multiple employer defined contribution pension plan, was implemented by the Vermont Municipal Employees' Retirement System's Board of Trustees on July 1, 2000, and is reported as a pension trust fund. The defined contribution plan was offered by municipal employers to one or more groups of their eligible employees. Once offered by the employer, each eligible employee was required to make an election to participate. Employees participating in one of the municipal defined benefit plans who elected to participate in the defined contribution plan had the July 1, 2001, actuarial value of their accrued defined benefit plan transferred to the defined contribution plan. Employers that did not offer the defined contribution plan to their employees as of December 31, 1999, have an opportunity to do so no later than December 31 of any subsequent year with the transfer effective July 1 of the following year.

Participating municipal employees are required to contribute at the rate of 5% of earnable compensation. Employers are required to contribute at the rate of 5.125%. Employees become vested in the plan after 12 months of service. During the fiscal year ended June 30, 2016, member contributions totaled $504,306 and employer contributions at $566,707. As of June 30, 2016, the Municipal Employees' Defined Contribution Plan's net position totaled $20,563,970 and there were 512 participants.

The Single Deposit Investment Account (SDIA), a non-contributory multiple employer defined contribution pension plan reported as a Pension Trust Fund, was established according to the provisions of Public Act 41 of the 1981 Session. The Act authorized a new Group B non-contributory plan within the State Teachers Retirement System (STRS) and a new Group E non-contributory plan within the Vermont State Retirement System (VSRS).

The STRS's members in the Group A contributory plan could have elected to either remain in the Group A plan or transfer to the new Group B non-contributory plan. Group A members electing to transfer to the Group B plan had their choice between the following three options:

- have both their accumulated employee contributions and accumulated interest returned to them; or
- have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

The VSRS's members in the Group A contributory plan could have elected to either remain in the Group A plan or transfer to the new Group E non-contributory plan. Group A members electing to transfer to the Group E plan had their choice between the following three options:

- have both their accumulated employee contributions and accumulated interest returned to them; or
- have their accumulated contributions returned to them and only their accumulated interest invested by the retirement board in the SDIA; or
- have both their accumulated employee contributions and accumulated interest invested by the retirement board in the SDIA.

No additional contributions could be made to the SDIA beyond those described above. The SDIA funds are not available to the members until they retire or terminate employment. At June 30, 2016 there were 1,465 members, with net position of $53,030,870 in the Single Deposit Investment Account.

The defined contribution plans' financial statements are as follows:

Statement of Plan Net Position
Defined Contribution Plans
June 30, 2016

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Assets			
Cash and short term investments	$ 282,968	$ 1,426,267	$ 153,538
Receivables			
Contributions	131,576	-	33,355
Interest and dividends	-	88	-
Investments			
Mutual and commingled funds	56,828,293	51,604,515	20,436,299
Prepaid expenses	603	-	-
Total assets	57,243,440	53,030,870	20,623,192
Liabilities			
Accounts payable	8,795	-	218
Due to other funds	50,744	-	58,805
Interfund loan payable	24	-	199
Total liabilities	59,563	-	59,222
Net position held in trust for employees' pension benefits	$ 57,183,877	$ 53,030,870	$ 20,563,970

Statement of Changes in Plan Net Position
Defined Contribution Plans
For the Fiscal Year Ended June 30, 2016

	Vermont State Defined Contribution Fund	Single Deposit Investment Account	Vermont Municipal Employees' Defined Contribution Fund
Additions			
Contributions			
Employer - pension benefit	$ 1,802,627	$ -	$ 566,707
Plan member	733,928	-	504,306
Transfers from other pension trust funds	111,620	-	111,280
Transfers from non-state systems	48,862	-	54,200
Total contributions	2,697,037	-	1,236,493
Investment Income			
Net appreciation (depreciation) in fair value of investments	(3,897,549)	1,382	(1,409,044)
Dividends	3,369,497	1,200,259	1,097,141
Interest income	564	456	357
Other income	24,585	-	8,415
Total investment income	(502,903)	1,202,097	(303,131)
Less Investment Expenses			
Investment managers and consultants	-	163,901	-
Total investment expenses	-	163,901	-
Net investment income	(502,903)	1,038,196	(303,131)
Total additions	2,194,134	1,038,196	933,362
Deductions			
Retirement benefits	3,302,037	5,350,563	1,296,812
Operating expenses	51,720	-	101,759
Total deductions	3,353,757	5,350,563	1,398,571
Change in net position	(1,159,623)	(4,312,367)	(465,209)
Net position held in trust for employees' pension benefits			
July 1, 2015	58,343,500	57,343,237	21,029,179
June 30, 2016	$ 57,183,877	$ 53,030,870	$ 20,563,970

C. Other Postemployment Benefits

In addition to providing pension benefits, the State offers postemployment medical insurance, dental insurance, and life insurance benefits to retirees of the VSRS and STRS.

Medical Insurance Plan Descriptions

Vermont State Postemployment Benefits Trust Fund
The Vermont State Postemployment Benefits Trust Fund (VSPB) (3 V.S.A. 479a) was established in fiscal year 2007 as an irrevocable trust fund for the purpose of accumulating and providing reserves to support retiree postemployment benefits other than pension benefits for members of the Vermont State Retirement System.

Employees Hired Prior To July 1, 2008
State employees hired prior to July 1, 2008, and retiring directly from active State service for any reason (disability, early, or normal) may elect to carry whatever medical coverage is in effect at that time into retirement for themselves and their dependents. During their lifetime the retiree will pay 20% of the cost of the premium, except in the case where retirees select joint or survivorship options. If the retiree chooses the joint or survivor pension options and predeceases his or her spouse, the medical benefits along with the pension benefit will continue for the spouse. However, generally, the surviving spouse must pay 100% of the cost of the premium.

In addition, once a retiree or surviving spouse becomes eligible for Medicare coverage (at age 65); it is mandatory that they enroll in both Medicare Part A and Part B as soon as possible. Medicare thus becomes the primary insurer with the State plan becoming the secondary insurer. The insured's State insurance premium costs will then decrease in recognition of this change.

Vermont State Retirement System's defined benefit plan Group C members who terminate with 20 or more years of service, but are not yet 50 years old, may elect to receive medical coverage at the time they begin receiving their retirement benefits. For all other Vermont State Retirement System's active employees, if the employee does not retire directly from State service (inactive members), they are not eligible to participate in the State's medical insurance plan. If the insurance is terminated at any time after retirement benefits have been received, coverage will not be able to be obtained again at a later date.

Employees Hired After June 30, 2008
Based on legislation enacted during fiscal year 2008, Vermont State Retirement System's defined benefit plan Group F employees hired after June 30, 2008 will pay, upon retirement, a tiered retiree health care premium amount based on completed years of service. The tiered rate paid will range from 100% of the premium cost for retirees with less than 10 years of service to 20% of the premium cost for retirees with 20 or more years of service. Additionally, as part of the enacted legislation, Group F employees hired after June 30, 2008 will also have the ability to elect health care insurance at the 20% premium cost level when they begin to receive retirement benefits in a manner comparable to regular retirements even if the employee terminated prior to their early retirement date, provided the member had 20 years of service upon termination of employment.

As of June 30, 2016, retirees accounted for 4,795 of the 13,608 participants enrolled in the single, spousal, or family plan options. Of the $180.2 million in premiums received by the Medical Insurance Fund (internal service fund) during 2016, retirees contributed $9 million.

The State's fiscal year 2016 contributions to VSPB totaled $32.5 million. The VSPB then paid premium payments of $31.6 million (calculated on a pay-as-you-go basis) to the State's Medical Insurance Fund. At June 30, 2016, the trust fund has total net position of $21.4 million being held in trust for postemployment benefits other than pension benefits.

Retired Teachers' Health and Medical Benefit Fund
The Retired Teachers' Health and Medical Benefit Fund (RTHMB) (16 V.S.A. 1944b) was created by the legislature on July 1, 2014, to explicitly appropriate State contributions to the fund for current year (pay-as-you-go) health care expenses separate from the State's contribution to the State Teachers' Retirement System

(STRS) pension trust fund. Prior to fiscal year 2015, the health care expenses for the STRS's retirees were paid through a sub-fund of the defined benefit pension trust fund and no State contribution was explicitly budgeted or funded.

Retirees of the STRS participate in multi-employer health coverage plans operated by the Vermont Education Health Initiative (VEHI) which is managed jointly by the Vermont School Boards Insurance Trust and the Vermont- National Education Association. VEHI partners with Blue Cross Blue Shield to provide health insurance to retired and active teachers. VEHI issues its own audited financial statements. These and plan information are available the VEHI Offices, 2 Prospect Street, Suite 5, Montpelier, VT 05602.

STRS's members have access to three medical benefit plans in retirement. The plans are identical to those offered to active teachers in public school systems in Vermont. Members may pick up medical coverage under one of the plans offered for themselves and all eligible dependents at the time of retirement, or anytime thereafter during one of the semi-annual open enrollment periods. If the member has a minimum of 10 years of creditable service at the time of retirement, the system picks up 80% of the retiree's premium only, based on the cost of the "standard plan" as defined by statute. The retiree must pick up the full cost of the premium for all covered dependents.

Once a retiree becomes eligible for Medicare coverage (at age 65), it is mandatory that they enroll in both Medicare Part A and Part B. Medicare becomes the primary insurer and the Teacher's medical plans become the secondary insurer. Two of the plans offered become "carve-out" plans to coordinate with Medicare, and one of the plans is replaced with a true Medicare supplemental plan. The premiums for all plans are reduced in accordance with the decrease in liability once Medicare becomes the primary insurer.

For fiscal year 2016, the RTHMB received nonemployer contributions of $16.4 million. The State Treasurer is authorized to use interfund borrowings of up to $30 million to finance any funding shortfalls, and it is the Legislature's intent to repay any such borrowings by the end of fiscal year 2023. At June 30, 2016 the balance on this loan was $23.05 million. The RTHMB paid $27.3 million in premiums to VEHI on a pay-as-you-go basis, during fiscal year 2016.

As of June 30, 2016, 6,359 retirees are enrolled in the single, spouse, and family medical plan options. The retirees contributed $17.9 million in premiums.

Plan Membership
At June 30, 2016, the number of participants included in the OPEB valuations are as follows:

	VSPB	RTHMB
Active employees [(1)]	8,813	9,919
Terminated vested	-	1,824
Retired employees [(2)]	4,795	8,620
Total participants	13,608	20,363

[(1)] Number of active employees includes participants in the defined contribution plan.
[(2)] Includes 21 VSPB and 314 RTHMB July 1, 2016 retirements.

OPEB Actuarial Valuation - Methods and Assumptions

The State's independent actuary has prepared annual valuations of the OPEB liabilities for VSPB and RTHMB as of June 30, 2016. Both the VSPB and RTHMB reports present two separate calculations of the State's OPEB liability, depending on whether the liability would be prefunded or remain on a pay-as-you-go basis. Since the State OPEB trust fund has accumulated some assets, a third blended calculation is also included in the valuation. The MERS, a cost-sharing, multiple-employer public employees' retirement system, is administered by the State but has no associated State health care benefit or liability.

While the Vermont Municipal Employees Health Benefit Fund is classified as a postemployment benefit fund, there is no accrued liability in excess of the assets of the fund. There is no annual required contribution and unfunded actuarial accrued liability. Component units and authorities of the State will perform their own valuation as the State does not assume the risk or financial burden for their health care costs.

The VSPB, assuming no prefunding, actuarial accrued liability increased over the past year due to the following factors:

- Expected increases due to the passage of time;
- Demographic experience different than expected; and
- Updated mortality assumption.

These increases were partially offset by the following assumption changes:

- Lower than expected increase in premiums;

The RTHMB, assuming no prefunding, actuarial accrued liability decreased over the past year due to the following factors:

- Updates to the methodology used in setting cost assumptions using actual claims information

These factors were partially offset by the following:

- Expected increases due to the passage of time;
- Impact of recent year's demographic experience; and
- Changes to the participation assumptions for current and future retirees and spouses.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The following list contains the various actuarial methods and significant assumptions used to determine the annual required contributions at the State level for VSPB and RTHMB OPEB plans.

(Notes continue on next page.)

	VSPB			RTHMB
Valuation date	6/30/2016			6/30/2016
Actuarial cost method	Projected Unit Credit			Projected Unit Credit
Amortization method	Open basis			Open basis
Amortization period	30 years starting in FY 2016			30 years starting in FY 2016
Actuarial Assumptions				
Investment rate of return	4.00%			4.00%
Medical Care and State Share Inflation	FY Ending	Pre-medicare Inflation rate	Post-medicare Inflation rate	5.00%
	2017	8.00%	6.00%	
	2018	7.50%	5.75%	
	2019	7.00%	5.50%	
	2020	6.75%	5.25%	
	2021	6.50%	5.00%	
	2022	6.25%	4.75%	
	2023	6.00%	4.50%	
	2024	5.75%	4.50%	
	2025	5.50%	4.50%	
	2026	5.25%	4.50%	
	2027	5.00%	4.50%	
	2028	4.75%	4.50%	
	2029+	4.50%	4.50%	
Coverage	80% of current active employees will elect retiree medical coverage 70% of terminated vested participants will elect retiree medical coverage			70% of those eligible at retirement will elect retiree medical coverage 30% of terminated vested participants will elect retiree medical coverage

The actuary has estimated the change in the unfunded actuarial accrued liability between June 30, 2015 and June 30, 2016, as follows:

	VSPB	RTHMB
Unfunded actuarial accrued liability, June 30, 2015……	$ 1,093,118,593	$ 1,003,093,294
End of year service cost……	39,743,614	24,853,366
Interest cost……	43,718,939	38,924,996
Expected benefit payments……	(40,496,204)	(40,218,215)
Expected increase (decrease) in assets……	(1,582,404)	799,488
Impact of recent year demographic experience……	23,185,463	61,985,720
Updated per capita costs……	(12,423,917)	(572,519,216)
Change in assumptions……	(948,159)	150,873,093
Actual asset loss……	134,044	10,105,128
Unfunded actuarial accrued liability, June 30, 2016……	$ 1,144,449,969	$ 677,897,654

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the component of the State's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed, and the changes in the State's net OPEB obligation (NOO).

	VSPB	RTHMB
Annual Required Contribution (ARC)……	$ 69,020,949	$ 52,105,794
Interest on NOO……	12,922,639	15,649,836
Amortization of NOO……	(9,341,569)	(11,313,017)
Annual OPEB Cost (AOC)……	72,602,019	56,442,613
Employer Contribution Made……	(32,522,691)	(16,434,421)
Increase in NOO……	40,079,328	40,008,192
NOO - July 1, 2015……	323,065,971	391,245,903
NOO - June 30, 2016……	$ 363,145,299	$ 431,254,095
Percentage of AOC contributed	44.80%	29.12%

Three-Year Trend Information

OPEB Fund/Plan	Year Ended 6/30	Annual OPEB Cost (1)	Percentage Contributed	NOO Balance
Vermont State Postemployment Benefit Trust Fund				
	2014	$ 67,056,926	36.20%	$ 277,521,895
	2015	74,572,092	38.93%	323,065,971
	2016	72,602,019	44.80%	363,145,299
Retired Teachers' Health and Medical Benefits Fund (2)				
	2014	$ 42,765,165	NA	$ 360,922,111
	2015	44,989,059	32.60%	391,245,903
	2016	56,442,613	29.12%	431,254,095

(1) Determined on a pay-as-you-go basis.
(2) For years prior to 2015 there was no explicit funding for these benefits. Effective 7/1/2014, Act 179 of 2014 section E.514.1 created this fund and provided for explicit contributions for funding these benefits on a pay-as-you-go-basis.

Funded Status and Funding Progress

The funding status of the plans as of June 30, 2016, was as follows *(expressed in thousands):*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
VSPB						
6/30/16	$ 21,353	$ 1,165,803	$ 1,144,450	1.8%	$ 497,222	230.2%
RTHMB						
6/30/16	(20,961)	656,937	677,898	-3.2%	606,843	111.7%

The schedule of funding progress, presented as required supplementary information immediately following these notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Dental Insurance
Dental plans are available to retired State employees, retired teachers, retired municipal employees and their eligible dependents. The dental plan must be elected at the time of retirement. The retiree pays the full premium for all covered lives. There is no cost to the State.

Life Insurance
In the case of life insurance, if a State employee retires with 20 or more years of service and was participating in the life insurance program, a $10,000 benefit will continue into retirement. If a State employee retires due to disability prior to age 60, and if proper documentation is approved by the life insurance company, full life insurance coverage will continue at the State's expense up to age 65. When the retiree reaches the age of 65 and if they have a total of 20 years or more of active and retired (while receiving disability) service, life insurance coverage will automatically change to the $10,000 level with 100% of the premium being paid by the State. In addition, a retiree may convert their insurance coverage in effect at their time of retirement to an individual policy within 30 days of their retirement date without a physical exam.

Vermont Municipal Employees Health Benefit Fund

The MERS RHS Plan established on July 1, 2007, is a tax-advantaged savings plan that assists retirees in paying for healthcare costs after retirement. Contributions to this fund are deposited into the RHS Plan member accounts on a tax-free basis, accumulate interest on a tax-free basis, and are drawn out during retirement on a tax-free basis to reimburse health care expenses, including out-of-pocket expenses, deductibles and premiums.

The MERS Board deposited an initial amount of $5.1 million into the RHS accounts on July 2, 2007. Additional employer contributions totaling approximately $6 million were collected during the course of the fiscal years 2008 and 2009 that were deposited in member accounts during fiscal year 2009. No such contributions have been made since fiscal year 2009. Future contributions and subsequent transfers to member accounts will be made as directed by the MERS Board of Trustees. There is no guarantee that the RHS member accounts will receive any additional funding. While classified as a postemployment benefit fund, there is no accrued liability in excess of the asset of the fund. There is no annual required contribution and unfunded actuarial accrued liability.

All MERS defined benefit pension plan members and retirees who have a minimum of 5 years of contributory service are eligible to participate in the RHS plan. The amount each member will receive is determined by the total number of contributory years of service in the system. Each year of service is equal to one share. The share value is determined based on the total eligible population, the total number of years of contributory service represented, and the amount of the distribution. The share value will change when future deposits are made. All eligible members receive the first five shares in their medical reimbursement account, which may be used for any medical expense, including premium reimbursement. The additional shares, representing service credit above five years, are deposited into the premium reimbursement account, which may only be used for medical, dental, vision or long-term health care premium reimbursements.

The money may be accessed by members only after separation from service and the achievement of retiree status from the MERS plan. For members who were already receiving retirement benefits from the MERS, the funds in their RHS account could be accessed after July 2, 2007 to reimbursement expenses incurred after July 1, 2007. Members who are still actively employed, and members in a vested-terminated status, may access the funds once they retire and begin receiving monthly pension payments. Funds in the RHS accounts are invested in the appropriate age-related Milestone Fund through a third party record keeper.

At June 30, 2016, there were 5,299 active and retired members participating in the MERS RHS plan. Investments in member accounts as of June 30, 2016 totaled $12,501,352. The financial statements for the OPEB Funds are as follows:

Statement of Plan Net Position
Other Postemployment Benefit Funds
June 30, 2016

	Vermont State Postemployment Benefits Trust Fund	Vermont Retired Teachers' Health and Medical Benefits Fund	Vermont Municipal Employees' Health Benefit Fund
Assets			
Cash and short term investments	$ 904,669	$ 171,840	$ 545,188
Receivables			
Contributions	1,220,631	165,833	-
Other receivables	-	1,829,501	-
Investments			
Mutual funds	19,311,129	-	11,956,164
Prepaid expenses	-	69,131	-
Total assets	21,436,429	2,236,305	12,501,352
Liabilities			
Accounts payable	83,607	81,810	-
Accrued interest payable	-	60,956	-
Interfund loans	5	23,054,611	-
Total liabilities	83,612	23,197,377	-
Net position held in trust for employee's other postemployment benefits	$ 21,352,817	$ (20,961,072)	$ 12,501,352

Statement of Changes in Plan Net Position
Other Postemployment Benefit Funds
For the Fiscal Year Ended June 30, 2016

	Vermont State Postemployment Benefits Trust Fund	Vermont Retired Teachers' Health and Medical Benefits Fund	Vermont Municipal Employees' Health Benefit Fund
Additions			
Contributions			
Employer - healthcare benefit	$ 32,522,691	$ -	$ -
Non-employer - healthcare benefit	-	16,434,423	-
Total contributions	32,522,691	16,434,423	-
Investment Income			
Net appreciation (depreciation) in fair value of investments	20,491	-	(97,566)
Dividends	466,886	-	-
Interest income	9,132	12,386	1,665
Other income	371	-	-
Total investment income	496,880	12,386	(95,901)
Less Investment Expenses			
Investment managers and consultants	2,212	-	66,459
Total investment expenses	2,212	-	66,459
Net investment income	494,668	12,386	(162,360)
Total additions	33,017,359	16,446,809	(162,360)
Deductions			
Other postemployment benefits	31,568,917	27,298,598	245,914
Operating expenses	83	52,825	-
Total deductions	31,569,000	27,351,423	245,914
Change in net position	1,448,359	(10,904,614)	(408,274)
Net position held in trust for employees postemployment benefits			
July 1, 2015	19,904,458	(10,056,458)	12,909,626
June 30, 2016	$ 21,352,817	$ (20,961,072)	$ 12,501,352

5. Other Long-term Liabilities

Governmental activities long-term liabilities are generally liquidated by payments from the governmental and internal service funds' programs, including all major governmental fund types except for the Education Fund. Bonds payable are liquidated by transfers of resources from the General, Transportation, Special and Federal Funds. During the year ended June 30, 2016, the following changes occurred in the governmental activities long-term liabilities:

	Total Liability July 1, 2015	Additions	Reductions	Total Liability June 30, 2016	Amounts due within one year
Governmental activities					
Bonds payable					
Bonds(1)	$ 616,595,000	$ 115,580,000	$ 75,255,000	$ 656,920,000	$ 51,520,000
Bond premium	36,441,838	12,126,196	7,401,985	41,166,049	8,056,424
Bond discount	(164,137)	-	(12,945)	(151,192)	(13,354)
Total bonds payable	652,872,701	127,706,196	82,644,040	697,934,857	59,563,070
Capital leases payable	11,875,100	-	954,629	10,920,471	561,919
Compensated absences	33,489,899	41,881,284	41,377,519	33,993,664	29,947,101
Claims and judgments	55,355,104	170,530,882	167,362,382	58,523,604	24,581,183
Contingent liabilities	7,000,000	-	-	7,000,000	-
Net pension liability	1,300,872,140	612,453,789	195,427,437	1,717,898,492	-
Net other postemployment obligations	714,311,874	129,044,632	48,957,112	794,399,394	-
Pollution remediation obligations	4,933,171	5,159,406	1,748,780	8,343,797	671,000
Total governmental activities long-term liabilities	$ 2,780,709,989	$ 1,086,776,189	$ 538,471,899	$ 3,329,014,279	$ 115,324,273

(1) Governmental activities bonds payable include additions of $115,580,000 in general obligation bonds.

The Pollution Remediation Obligation (PRO) liabilities were measured using the actual contract cost when no changes in cost are expected, or a method that is materially close to the expected cash flow technique. Liability estimates are subject to change due to cost increases or reductions, or changes in technology or applicable laws or regulations governing the remediation efforts. Overall, the state has recorded a pollution remediation liability of $8,343,797 of which $671,000 is due within one year. Pollution remediation liability activity in fiscal year 2016 was as follows.

Department of Environmental Conservation
Under the federal Superfund law, the State is responsible for sharing remediation costs at sites where the United States Environmental Protection Agency (USEPA) expends resources from the superfund trust for cleanup. Currently, there are seven sites where the state has referred the matter to federal Superfund jurisdiction, and has executed a contract, or legal obligation, to share in the cost for cleanup and long term operations and maintenance. These obligations are reflected in a State Superfund Contract. There are two superfund sites where no liability has been reported because obligations are not yet reasonably estimable. There are no viable potentially responsible parties or insurance available to reduce the remediation costs for the superfund sites listed below. These Superfund sites in Vermont are in various stages of cleanup, from initial assessment to cleanup activities as follows:

- Vermont has three former copper mines that are listed as federal Superfund sites. One of these sites is in the early stages of investigation and a remedial plan has not been determined for estimating the potential liability. At the Elizabeth Mine, cleanup of acidic discharges has progressed and the State is obligated to cover 10% of the site remedy and long-term operation and maintenance. Under the current phase of remedial work and cleanup, the State's obligation over the next 10 years is estimated at $1,440,000 of which $40,000 is estimated to be spent in 2017. At the Ely Mine, the State is in the process of entering into a Superfund contract to cover 10% of the site remedy. The operation and maintenance following cleanup has not been determined. The PRO as of June 30, 2016 is $2,600,000.

- There are two superfund sites under the oversight of the USEPA which have been remediated, and under the superfund site agreement the State is responsible for long-term operation and maintenance costs of the facilities constructed by the EPA. The PRO as of June 30, 2016 is $183,500, and the current amount due is $15,000.

- A former industrial site is currently under remedial investigation. The cost share under the current phase is $66,000 to be spent in 2017, and the PRO as of June 30, 2016 is $831,000.

Sites not included under the federal Superfund trust, include a former mining facility with significant ground contamination and possibly one of the State's largest future potential obligation for cleanup. The State has been working with potential responsible parties and the USEPA to address the environmental contamination but so far a remedy for the site's cleanup, including an estimate of the cost of cleanup, has not been determined due to the potential magnitude and the various options that are being investigated. The State performs the annual operation and maintenance of the erosion control systems installed. The estimated PRO for erosion control measures over the next five years is $2,000,000. The current cost of operation and maintenance will be covered by special settlement funds received from one potential responsible party.

In 2016, the State learned of perfluorooctanoic acid (PFOA) contaminants impacting hundreds of private drinking water wells and public water systems in an area surrounding a former manufacturing plant. The State is currently working on addressing the health, safety, and environmental concerns resulting from the detection of PFOA in the drinking water of residents. The former owner of the plant is litigating responsibility, so it is unclear as to whether any of the cost of cleanup will be potentially recovered. The PRO as of June 30, 2016 is $500,000, which will be used to cover the estimated cost for the point-of-entry treatment system being installed to effectively treat PFOA contaminated groundwater being used by residences.

The State's monitoring and treatment performance evaluations continue on cleanup of ground water contamination resulting from a chemical spill at a former dry cleaner facility. The total PRO reported at June 30, 2016 of $677,000 for source removal of contamination, if dictated by annual monitoring. The amount due in 2017 for operation and maintenance is $30,000.

Agency of Transportation

The Agency of Transportation has recorded liabilities totaling $112,297 at June 30, 2016 for petroleum cleanup and restoration of contaminated soil at two locations. The cost of cleanup has been estimated based on the contractors' anticipated cost to complete the work. There are no expected recoveries that have reduced the liability.

Department of Buildings and General Services

Abatement projects in State Buildings commence when potentially harmful substances such as asbestos, mold, or polychlorinated biphenyl (PCBs') in wall paint are detected. In 2016, the State completed cleanup of mold in one building and PCBs in wall paint in another building and has no PRO at June 30, 2016.

During the year ended June 30, 2016, the changes occurred in the business-type activities and fiduciary funds long-term liabilities are shown on the following page.

	Total Liability July 1, 2015	Additions	Reductions	Total Liability June 30, 2016	Amounts due within one year
Business-type activities					
Compensated absences	$ 310,013	$ 278,934	$ 291,246	$ 297,701	$ 269,736
Lottery prize awards payable	6,471,971	80,140,727	79,873,589	6,739,109	5,904,628
Net pension liabilities	3,002,355	2,358,151	814,947	4,545,559	-
Total business-type activities long term liabilities	$ 9,784,339	$ 82,777,812	$ 80,979,782	$ 11,582,369	$ 6,174,364
Fiduciary					
Compensated absences	$ 4,094	$ 12,471	$ 10,264	$ 6,301	$ 5,402
Total fiduciary long-term liabilities	$ 4,094	$ 12,471	$ 10,264	$ 6,301	$ 5,402

The compensated absences for the business-type activities are included as part of accrued salaries and benefits on the propriety funds' Statement of Net Position.

The compensated absences for the fiduciary funds are included as part of accrued liabilities on the fiduciary funds Statement of Net Position.

H. Fund Balance/Net Position

Governmental Funds

The composition of the summarized fund balances reported on the governmental funds' Balance Sheet for the fiscal year ended June 30, 2016, are shown below and continues on the following page.

	Restricted Purposes	Committed Purposes	Assigned Purposes
General Fund			
Government Operations			
Governor and other Elected Officials................	$ -	$ -	$ 5,850
Public Safety and Regulatory Services.............	-	-	1,415,035
Courts..	-	-	42,343
Health and Human Services...........................	-	-	1,720,109
Correctional Services....................................	-	-	176,454
Educational Services....................................	-	-	30,697
Natural Resources Protection and Preservation...	-	-	831,970
Economic and Community Development...........	-	-	1,391,198
Tourism and Marketing..................................	-	-	249,662
Total General Fund....................................	$ -	$ -	$ 5,863,318
Transportation Fund			
Transportation...	$ 405,505	$ 18,566,265	$ -
Total Transportation Fund............................	$ 405,505	$ 18,566,265	$ -
Education Fund			
Educational Services....................................	$ -	$ 81,679,763	$ -
Total Education Fund.................................	$ -	$ 81,679,763	$ -

	Restricted Purposes	Committed Purposes	Assigned Purposes
Special Fund			
Government Operations			
Governor and Other Elected Officials	$ -	$ 254,634	$ 119,771
Legislature	-	-	93,017
Administrative Services	1,692,956	1,740,147	1,525,480
Public Safety and Regulatory Services	1,338,939	47,391,898	1,640,939
Courts	-	2,991,347	400,057
Correctional Services	5	617,153	80,726
Employment and Training	-	9,634,870	94,977
Educational Services	-	71,154	-
Natural Resources Protection and Preservation	4,628,604	26,362,897	783,013
Economic and Community Development	3,323,400	3,301,661	898,092
Tourism and Marketing	-	517,194	102,466
Total Special Fund	$ 10,983,904	$ 92,882,955	$ 5,738,538
Federal Revenue Fund			
Government Operations			
Governor and Other Elected Officials	$ 59,579	$ -	$ -
Administrative Services	2,046	-	-
Public Safety and Regulatory Services	14,032,557	-	-
Courts	970	-	-
Health and Human Services	69,448,304	-	-
Correctional Services	63	-	-
Employment and Training	5,236,628	-	-
Educational Services	2,796,476	-	-
Natural Resources Protection and Preservation	360,714,998	-	-
Economic and Community Development	985,118	-	-
Total Federal Revenue Funds	$ 453,276,739	$ -	$ -
Global Commitment Fund			
Health and Human Services	$ 105,866,850	$ -	$ -
Total Global Commitment Fund	$ 105,866,850	$ -	$ -
Non-major Governmental Funds			
Government Operations			
Administrative Services	$ 14,940	$ -	$ -
Health and Human Services	62,648	-	-
Educational Services	-	23,242,297	-
Natural Resources Protection and Preservation	229,473	10,764,825	-
Economic and Community Development	3,676	-	-
Capital Outlays	52,182,856	-	-
Debt Service	3,209,802	633	-
Total Non-major Governmental Funds	$ 55,703,395	$ 34,007,755	$ -

Note V. OTHER INFORMATION

A. Risk Management

1. Workers' Compensation and Risk Management

The Agency of Administration's Financial Services Division oversees the Workers' Compensation and Risk Management programs, which administers all insurance programs for State government with the exception of the health and life insurance plans listed below. State policy is to minimize the purchase of commercial insurance by either self-funding or otherwise retaining the risk when it makes sense to do so. The programs set aside assets and pay claims utilizing the following three Internal Service Funds:

State Employees' Workers' Compensation Fund
State Liability Self Insurance Fund
Risk Management – All Other Fund (used for the purchase of commercial insurance)

The Workers' Compensation Fund covers all State employees who are injured on the job, pursuant to State statute. Certain quasi-governmental entities may also request coverage through this program. The State has unlimited exposure to liability and has not purchased any stop-loss insurance to limit this exposure. All claims are processed by Workers' Compensation personnel and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's workers' compensation exposure is reliable. Workers' Compensation is reviewed annually by an outside auditor and an outside actuary, including a review of incurred but not reported claims (IBNR). The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The Liability Insurance Fund covers general and employment practices liability, discrimination, bodily injury and auto liability risk. The coverage is comparable to standard private commercial policies. This liability coverage is offered to the same group of participants described in the workers' compensation program paragraph above. The State's exposure to tort risk in Vermont is subject to the doctrine of sovereign immunity and is governed by the Vermont Tort Claims Act, 12 V.S.A. §5601. Exposure outside of Vermont and to federal suit and other non-tort suit is potentially unlimited. The State is self-insured retention (SIR) for the first $500,000 of exposure and has purchased excess commercial insurance to cover the additional per-occurrence exposure in amounts of up to $1,500,000 ($2,000,000 total) in Vermont and $10,000,000 in excess of the $500,000 SIR for claims that are not subject to the Vermont Tort Claims Act. Claims are processed by Risk Management personnel and/or the Vermont Attorney General's Office and are audited annually by an outside claims adjuster to ensure that the claims-based statistical information used to calculate the State's liability exposure is reliable. This liability is reviewed annually by an outside actuary, including a review of IBNR. The contribution required to fully fund losses is calculated annually by an outside actuary. Allocation to each participating entity is done by Risk Management personnel utilizing departmental exposure and experience factors.

The Risk-Management – All Other Fund provides insurance coverage through purchased commercial policies for risks not covered in the above funds or which are self-assumed. This coverage provides insurance for State-owned real property, bonds for various categories of employees, errors and omissions coverage for judges, and various other miscellaneous coverages. The State's liability exposure is limited to the amount of the various deductibles associated with the respective policies and potentially for any claims in excess of the purchased limits. Premium charges from the various insurers are either assessed directly against the entity requiring the coverage or apportioned among those entities receiving the benefits of the coverage. Risk Management also assesses a surcharge of up to 5% of the premium to cover administrative costs. Entities eligible for coverage are the same as those listed above for the other funds.

Insurance settlements have never exceeded the coverage disclosed above.

In addition to the three internal service funds above, effective July 1, 2007, the General Assembly established the Sarcoidosis Benefit Trust Fund (a program in the Special Fund) to cover specific claims arising from an outbreak of Sarcoidosis at the impaired State office building in Bennington, Vermont (Act 53 of 2007). Claims are reviewed and processed under rules established that mirror the rules for the Workers' Compensation Fund claims. Funding was established as a special fund and not a proprietary fund as funding will only be available by the General Assembly as claims arise and funding needs are determined. The Fund is managed by Workers' Compensation personnel. Total payments issued from fiscal year 2008 through fiscal year 2016 are $1,807,015.

2. Health Care Insurance, Dental Assistance Plan, Life Insurance, Employee Assistance Program, and Long Term Disability Funds for State Employee Benefit Plans

The Employee Benefits Division of the Department of Human Resources maintains medical/behavioral health insurance, dental assistance plan, life insurance, employee assistance program, and long term disability program funds for the benefit of current State employees, retired former employees, and legislators as well as employees and certain former employees of outside "special" groups which have been declared eligible to participate by statute or labor agreement. Not all of these named groups may participate in every plan. Detailed eligibility information for each group listed above can be found in the plan summaries that follow. Temporary and contractual employees are not eligible to participate in these plans.

Enrolled plan participants share in the premium cost of the medical/behavioral health plan. Prescription drug coverage is included in the medical/behavioral health plan. Premium rate setting is performed by an outside actuary in conjunction with the Administrative Services Division of the Department of Human Resources. The State's liability for incurred but not yet reported (IBNR) claims is calculated by the actuary and is based on the State's prior claims experience. Special Groups covered under the health insurance plan remit premium to the State for their members. Retirees covered under the health plan pay premium through the Retirement Division of the Treasurer's Office.

The plan options are: TotalChoice which is a "preferred provider organization" indemnity-type plan; and the SelectCare plan which is a "point of service" plan similar to an open-ended HMO (members may opt out of the SelectCare network but must meet a deductible and coinsurance to do so). Benefits are administered under a managed care arrangement. Both health plan options are self-insured by the State. The State employs a third party administrator to provide administrative services, including claims payment. To limit the State's large claims exposure, the State has purchased a stop loss insurance policy.

The self-funded State of Vermont Employee Dental Assistance Plan provides up to $1,000 regular dental benefits annually and up to $1,750 lifetime benefit for orthodontic expenses for each participant. These plan caps effectively limit the State's exposure to catastrophic loss so no stop-loss insurance has been purchased. The Administrative Services Division within the Department of Human Resources sets the premium rates, in consultation with the dental plan administrator's actuary. Participants include all groups mentioned in paragraph 1 above except for retirees. The State pays 100% of the premium for State employee participants and their covered dependents. Special Groups covered under the dental assistance plan remit premium to the State for their members.

The State of Vermont Employee Life Insurance Program consists of a Term-Life benefit and an Accidental Death and Dismemberment (AD&D) benefit, each of which provides coverage equal to two times a participant's base salary rounded down to the nearest $100. Retirees who work for the State for at least twenty years and who have life insurance at the time of retirement receive a retiree life benefit of $10,000 with no AD&D coverage. Both Life and AD&D are fully insured benefits. The State purchases insurance under which the carrier retains liability for all claims. The Administrative Services Division calculates the premium rates charged to departments for both of these programs. The State pays 75% of active employees' premiums and 100% of retirees' premium costs. Only current State employees, retired State employees, and current active employees of outside special groups are eligible to participate. Special Groups covered under the life insurance plan remit premium to the State for their members.

An Employee Assistance Program (EAP) is provided for the benefit of State employees and members of their immediate household. This program assists employees and family members in addressing problems that impact their lives including stress, family, financial, substance abuse, and other issues. Active State employees and their families are eligible for this program. The EAP Program Manager is paid a monthly fee based on the number of employees who work for the State. The plan provides up to 5 counseling sessions per case through a network of providers. No claims costs, or claims liabilities are incurred under this plan by the State. The State pays 100% of the fee for this plan.

A Long Term Disability Program is provided as an income replacement benefit for certain State employees who become disabled due to non-occupational injury or illness, and the disability is expected to be long term or permanent. The plan provides financial protection for State employees and their families by continuing a portion of their income while disabled. Only State employees who are not eligible to be represented by the employees' unions (the Vermont State Employees Association and the Vermont Troopers Association) are eligible for this benefit. Employees must be employed for one (1) year before coverage is effective. This plan is fully insured through an insurance company, so there is no liability to the State for claims. The premium is based on a percentage of the salaries of eligible participants. The State issues payment to the insurance company for the premium and the cost is then recovered from eligible employees in the following manner: eligible employees who are covered by a leave plan forfeit one day of compensated absence leave per year, and, eligible employees who are not covered by a leave plan have a one-time 0.2% salary reduction in their next cost-of-living increase following eligibility.

Three years' changes in the respective funds' claims liability amounts are displayed in the following table:

Fund and Fiscal Year	Liability at Beginning of the Fiscal Year	Current FY Claims and Changes in Estimates	Current FY Claims Payments	Liability at End of the Fiscal Year
Workers' Compensation Fund				
2014	$ 27,293,839	$ 12,207,238	$ 8,164,385	$ 31,336,692
2015	31,336,692	8,659,714	8,448,751	31,547,655
2016	31,547,655	3,746,748	7,817,044	27,477,359
State Liability Insurance Fund				
2014	6,044,546	1,368,261	1,615,870	5,796,937
2015	5,796,937	2,698,167	1,639,611	6,855,493
2016	6,855,493	2,383,401	1,652,519	7,586,375
Medical Insurance Fund				
2014	11,885,028	146,557,229	144,983,169	13,459,088
2015	13,459,088	148,100,652	144,930,860	16,628,880
2016	16,628,880	158,289,586	151,768,273	23,150,193
Dental Insurance Fund				
2014	380,290	5,143,372	5,263,164	260,498
2015	260,498	6,139,185	6,076,607	323,076
2016	323,076	6,111,147	6,124,546	309,677

B. Budget Stabilization Reserves

The 1993 Legislature amended action taken by the 1987 Legislature by repealing legislation creating the Budget Stabilization Trust Fund and created separate Budget Stabilization Reserves within both the General Fund and Transportation Fund. The Education Fund Budget Stabilization Reserve was created by the 1999 Legislature. These reserves were created to reduce the effects of annual variations in State revenues upon these funds by reserving certain surpluses of revenues.

The reserves balances consist of any budgetary basis surplus at the close of the fiscal year, provided the balance in each fund's Budget Stabilization Reserve shall not exceed an amount equal to five percent of its appropriations for the prior fiscal year plus any additional amounts as may be authorized by the Vermont Legislature. Use of the reserve is limited to offsetting the respective fund's deficit at the close of a fiscal year. For fiscal year 2016, the State fully funded the Budget Stabilization Reserves for the General, Transportation and Education Funds to their respective statutory maximum levels. The balances at June 30, 2016 are as follows: $12,793,530 in the Transportation Fund's Budget Stabilization Reserve; $71,250,890 in the General Fund's Budget Stabilization Reserve; and $32,614,381 in the Education Fund's Budget Stabilization Reserve.

The State has previously reported its General Fund Budget Stabilization Reserve as reserved for budget stabilization in the governmental funds. With the implementation of GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", the reserve does not meet the criteria to be classified as restricted or committed fund balance, and is reported as unassigned fund balance. There has been no change in the budget stabilization policy or the way in which the policy is being carried out. The Transportation Fund's Budget Stabilization Reserve and the Education Fund's Education Reserve are classified as committed for transportation and education, respectively.

C. Limited Liabilities

1. Contingent Liabilities

Federal Grants:
The State receives federal grants that are subject to audit and review by federal grantor agencies that could result in expenditures being disallowed under the terms of the grants. However, it is believed that required reimbursements resulting from such disallowances would not be material.

Due to functionality challenges with its eligibility system for the Medicaid and Children's Health Insurance Programs, the State requested and received in November 2015 approval from the Centers for Medicare and Medicaid Services (CMS) a waiver, under section 1902(e)(14)(A) of the Social Security Act of certain Medicaid redetermination requirements.

The waiver established a February 29, 2016 deadline for completing non-MAGI and legacy MAGI redeterminations, and a November 30, 2016 deadline for completing Vermont Health Connect (VHC) MAGI redeterminations. As of February 29, 2016, the State had not fully complied with the terms of the waiver and the waiver deadlines were not extended. Management sought and received assurances from CMS that the waiver of the Federal requirements remained in effect through the February and November dates. However, CMS indicated that the waiver would not be extended after those dates. Thus the State has not fully complied with the redetermination requirements from March 1, 2016 through June 30, 2016. The State has assessed the impact of the noncompliance, for this four-month period, and does not believe it to be material to the accompanying financial statements. In addition, the State has not fully complied with the terms of the November 30, 2016 waiver deadline. The State has not fully assessed the impact on fiscal 2017 of noncompliance with redetermination requirements after the waiver deadlines.

Finally, the State submitted and CMS approved a Mitigation Plan for the State to work towards full compliance with the Medicaid eligibility provisions of the Affordable Care Act. CMS has been monitoring and will continue to monitor the State's compliance with the Mitigation Plan in accordance with the agreed upon timeline. The State believes it is currently in compliance with the Mitigation Plan.

2. Limited Liabilities

Vermont Economic Development Authority:
The State has a limited liability for the VEDA. VEDA may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 219. Annually, VEDA must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the

State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont Municipal Bond Bank:
The State has a limited liability for the Vermont Municipal Bond Bank (Bank). The Bank is required to maintain debt service reserve funds. 24 V.S.A. Section 4675 requires the State to provide annual appropriations to restore the reserve funds to the required minimum balance, if necessary. It has never been necessary for the State to appropriate money to the reserve fund and it is not anticipated that it will need to make an appropriation in the future.

Vermont Housing Finance Agency:
The State has a limited liability for the Vermont Housing Finance Agency (Agency). The Agency may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 632. Annually, the Agency must report to the State the amount necessary to bring these reserve fund balances up to the minimum required by statute. This sum so certified may be appropriated by the State. It has not been necessary for the State to appropriate money to maintain the reserve fund and it is not anticipated that any appropriation will have to be made.

Vermont Student Assistance Corporation:
The State has a limited liability for the VSAC. VSAC may create one or more debt service reserve funds in accordance with 10 V.S.A. Section 2867. Annually, VSAC must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.
University of Vermont:
The State has a limited liability for the UVM. UVM may create one or more debt service reserve funds in accordance with 16 V.S.A. Section 2363. Annually, UVM must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

Vermont State Colleges:
The State has a limited liability for the VSC. VSC may create one or more debt service reserve funds in accordance with 16 V.S.A. Section 286. Annually, VSC must report to the State the amount necessary to bring the reserve balances up to the minimum required by statute. This sum so certified may be appropriated by the State. To date, it has not been necessary for the State to appropriate money to maintain the reserve and it is not anticipated that any appropriation will have to be made.

3. Contractual Liabilities

At June 30, 2016, the State of Vermont had long-term contracts outstanding of approximately $293,067,590 funded from federal sources, and $834,304,469 funded from all other funding sources. Contracts such as retainer contracts and contracts for commodities have not been included since the nature of these on-going contracts are tracked statewide to ensure the best prices for supplies and some professional services.

Following is a summary of contractual liabilities by agency, department or office at June 30, 2016.

(Table on next page.)

Agency, Department, or Office	Total Contractual Obligation	Funded by Federal Sources	Funded by Other Sources
Agency of Administration	$ 141,545,983	$ 319,209	$ 141,226,774
Agency of Agriculture, Food & Markets	659,482	21,068	638,414
Agency of Commerce & Community Development	943,028	18,113	924,915
Agency of Education	9,023,868	8,225,828	798,040
Agency of Human Services	323,269,787	88,240,532	235,029,255
Agency of Natural Resources	11,644,422	1,762,259	9,882,163
Agency of Transportation	389,129,765	160,336,870	228,792,895
Center Crime Victim Services	63,635	59,810	3,825
Criminal Justice Training Council	624,912	-	624,912
Department of Labor	4,853,274	4,853,274	-
Department of Liquor Control	325,040	-	325,040
Department of Public Safety	5,045,556	1,661,765	3,383,791
Enhanced 911 Board	8,749,534	-	8,749,534
Financial Regulation	5,777,084	305,179	5,471,905
Green Mountain Care Board	2,379,549	1,992,525	387,024
Joint Fiscal Office	788,050	-	788,050
Judiciary	1,218,685	-	1,218,685
Military Department	26,949,636	23,795,306	3,154,330
Office of the Attorney General	1,457,940	53,879	1,404,061
Office of the Defender General	1,872,918	-	1,872,918
Public Service Board	99,200	-	99,200
Public Service Department	8,102,734	430,771	7,671,963
Secretary of State's Office	3,663,162	821,214	2,841,948
State Treasurer's Office	167,605,397	-	167,605,397
State's Attorneys and Sheriffs	205,752	-	205,752
Vermont Commission on Women	169,988	169,988	-
Vermont Life Magazine	3,081,223	-	3,081,223
Vermont Lottery Commission	8,122,455	-	8,122,455
Total	$ 1,127,372,059	$ 293,067,590	$ 834,304,469

The Agency of Transportation contracts are mainly infrastructure construction contracts of which 77% have end dates of June 30, 2017 or earlier. Of the Agency of Human Services contract liability balance, 22% is for contracts in the Department of Corrections, 48% is Department of Vermont Health Access, and 8% is Department of Health. Of the contracts in the Agency of Administration, 75% have end dates during fiscal year 2017, and are primarily for human resource benefit administration services, information technology services (including an electronic integrated tax system), and capital construction. The State Treasurer's Office contracts are mostly investment management services and health insurance for the retirement plans, with 41% having end dates during fiscal year 2017.

4. Grant Awards

The State of Vermont engages in many grant programs that benefit municipalities, non-profits, individuals and families statewide. The grant table summarizes the grant activity by government function. The award balance represents the total grant obligation outstanding at the beginning of the fiscal year. The awards to grantees in the current fiscal year totaled $595,248,938. The award adjustments column includes a reduction of $27,931,993 for amendments to grants that commenced in prior fiscal years and a reduction of $13,491,750 to the current year awards balance under Human Services for the contribution received from the University of Vermont Medical Center for the Graduate Medical Education program. The grants expended in the amount of $603,092,963 include payments issued to grantees on both current year awards and prior year grant awards.

The award balances at June 30, 2016 represent the remaining unexpended award amounts.

		Total Grant Obligation				
	Number of Grants Awarded in 2016	Award Balances at June 30, 2015	Current Year Awards	Award Adjustments	Grants Expended	Award Balances at June 30, 2016
General Government	1,527	$ 665,905	$ 24,953,923	$ (598,615)	$ (24,963,923)	$ 57,290
Protection to Persons and Property	660	25,339,081	26,853,200	(2,260,958)	(24,232,018)	25,699,305
Human Services	701	104,973,594	171,458,026	(16,650,377)	(165,080,577)	94,700,666
Labor	63	2,773,647	5,965,032	-	(2,440,266)	6,298,413
General Education	1,337	31,237,870	220,948,843	-	(234,275,423)	17,911,290
Natural Resources	302	17,018,533	19,986,630	10,542,765	(29,569,225)	17,978,703
Commerce and Community Development	266	39,061,702	27,909,111	(7,667,760)	(30,628,039)	28,675,014
Transportation	732	181,062,250	97,174,173	(24,788,798)	(91,903,492)	161,544,133
Grant Total	5,588	$ 402,132,582	$ 595,248,938	$ (41,423,743)	$ (603,092,963)	$ 352,864,814

The major grants awarded in 2016 are summarized below by agency or department.

General Government

The Department of Taxes awarded 1,163 grants in the amount of $24 million to municipalities.

Protection to Persons and Property

Public Safety grants are made up of safety programs like fire prevention and safety, motorcycle safety, bicycle safety, traffic safety, seatbelt safety and boating safety. In addition, the Division of Emergency Management & Homeland Security provides aid and support to Vermont's local emergency response providers by funding disaster preparedness programs. The Department issued 268 grants totaling over $10 million.

The Vermont Center for Crime Victims' Services awarded 112 grants in the amount of $4.7 million for crime victim assistance, and domestic and family violence services' programs.
The Agency of Agricultural, Food & Markets awarded 185 grants in the amount of $5.6 million to support programs that encourage growth of agriculture in Vermont while protecting the health of consumers and Vermont's environment.

Human Services

Public health grants are awarded for prevention of diseases and recovery support services. Programs include vaccinations and inspection programs, and public awareness programs like tobacco cessation, alcohol & drug abuse programs, opioid treatment, HIV support and prevention. In 2016, there were 248 grants awarded totaling $33.3 million for public health.

During fiscal year 2016, programs under mental health for adults and children were awarded $24.6 million. Programs managed under mental health are for housing and care programs, mental health services to the homeless, substance abuse and rehabilitation, suicide prevention, and support to family members of persons living with mental illness.

The Department of Children and Families awarded 203 grants totaling over $36 million for programs in 2016. Programs included economic assistance and services for families, early childhood and youth development programs, transitional housing, fuel assistance and weatherization programs.

The Department of Aging & Independent Living awarded 103 grants totaling $30 million for various aged and independent living programs. The majority of the grants were for training, work based learning and supported education, abuse prevention, independent living services, caregiver programs, services for individuals with physical disabilities, general support for the blind and visually impaired, and grants for congregate and home delivered meals.

The Department of Corrections funds several types of activities through grants, including Transitional Housing, Community Justice Centers, Community Outreach, Woman's programs, and Rapid Intervention. These grants provide offenders, individuals, families, and communities with support and treatment. The programs seek to divert adults at risk of incarceration, prevent crime, and reduce the risk of reoffending. The total amount of grant awards in 2016 was $5.5 million.

The Department of Vermont Health Access (DVHA) awarded $9 million in grants to hospitals and health care providers to administer and coordinate the delivery of care services such as counseling, substance abuse, and health coaching services. During FY 2016, DVHA paid $30 million to the University of Vermont Medical Center, Inc. (formally named Fletcher Allen Health Care) for the Graduate Medical Education program (GME). The GME program helps ensure access to quality essential professional health services for Medicaid beneficiaries through the care provided by teaching physicians and teaching hospitals. The University of Vermont contributed $13.5 million to the State to support the GME programs; this support is listed as other revenue in the Global Commitment Fund.

Labor

The Department of Labor awarded 63 grants totaling $6 million in 2016 primarily for workforce education and training activities. The grant award programs focus on economic and workforce development, increased funding for post-secondary education, and training through internships or scholarships in schools.

Education

The Agency of Education awarded 1,326 grants providing support for Vermont's education system totaling $128.2 million. The types of programs supported range from special education for preschool aged children to literacy skills for adults. Programs for children include early education and readiness programs plus wellness food programs. Secondary education program include the flexible pathways initiatives to increase the rates of graduation and continuation on to post-secondary education. Other programs focus on basic adult education, technology advances, tobacco use prevention, and teacher and principal training and recruitment.
The State awarded approximately $92 million to help fund higher education in Vermont.

Natural Resources

The Agency of Natural Resources administers grant and loan programs through its three Departments. The Department of Environmental Conservation provided grants and loans totaling $16.1 million in 2016. Program funding included loans to Municipalities for repair and improvement of water systems, pollution control systems, and storm-water projects. Other programs focused on education and informing the public about proper disposal of household hazardous waste products, aquatic nuisance control, and protecting environmentally sensitive areas. The Department of Forest, Parks & Recreation awarded $3.4 million in grants for programs that promote outdoor recreation while at the same time establish protocol to protect the environment; and the Department of Fish & Wildlife awarded approximately $417,000 in grants providing funding for an improved water and boating infrastructure, and enhanced and environmentally responsible shooting ranges.

Commerce and Community Development

The Agency of Commerce & Community Development awarded 220 grants in 2016 for programs which aim to provide decent housing, assure a suitable living environment, and expand economic opportunities for Vermonters. In addition, the agency funds the preservation of historic buildings, agricultural barns, and programs to integrate historic preservation concerns with local planning options. Of the 220 grants issued, the Department of Housing & Community Development awarded 137 grants totaling $17.8 million in funding. The Department of

Economic Development awarded 55 grants totaling $2.3 million with $1.2 million of the funding allocated to the Vermont Training Program, which provides employers with performance based workforce grants for pre-employment training, training for new hires and incumbent workers.

Transportation

The Agency of Transportation awarded 732 grants, totaling $97.2 million, providing funding to communities around the state that focus on safety, preservation and maintenance of existing transportation system, economic development, and energy efficient transportation choices. Funding for ongoing projects include bridge replacement and rehabilitation, culvert repair, paving projects, enhancement projects and various roadway projects. Vermont Better Backroads Program is an example of an enhancement project designed to promote the use of erosion control and maintenance techniques that save money while protecting and enhancing Vermont's lakes and streams. Funding is also provided for transportation alternatives including public transit services, on- and off-road pedestrian and bicycle facilities, infrastructure projects for improving non-driver access to their daily needs.

D. Litigation

The State, its agencies, officials and employees are defendants in numerous lawsuits involving funding for social welfare programs, civil rights actions, public education funding, breach of contract and negligence. The Attorney General is unable to predict the ultimate outcome of the majority of these suits, some of which seek recovery of monetary damages of unspecified amounts. However, based on information provided by the Attorney General, any ultimate liability to the State resulting from these lawsuits that is not covered by various insurance policies, would not materially affect the State's overall financial condition.

E. Joint Venture

The State of Vermont has entered into a Tri-State Lotto Compact with the States of New Hampshire and Maine for the purpose of operating a tri-state lottery. This lottery does not replace Vermont's individual lottery games but is run in addition to the existing games. The Compact provided for the creation of a Tri-State Lottery Commission (Commission) which is an interstate body, both corporate and politic, serving as a common agent for the party states and representing them both collectively and individually in the exercise of its powers and duties. The Commission is composed of one member from each of the party states. Each State's lottery appoints one of its members to this position. The three-member Commission annually elects a chairperson from among its members. The Commission is empowered to promulgate rules and regulations governing the establishment and to administer the operation of the Tri-State Lotto. Tri-State Lotto tickets are sold in each of the party states and processed in a central location as determined by the Commission. Fifty percent of the gross sales from each State are aggregated in a common prize pool, and operating costs are charged proportionally to each of the party states. The remaining revenues generated within each State remain in that particular State.

	June 30, 2016	June 30, 2015	Increase (Decrease)
Comparative Financial Information			
Assets	$ 42,768,415	$ 42,908,357	$ (139,942)
Liabilities	33,936,529	34,523,383	(586,854)
Operating revenues	58,458,832	55,875,517	2,583,315
Interest income	98,396	87,768	10,628
Commissions, fees and bonus expense	4,599,980	4,454,275	145,705
Prize awards	31,013,682	29,421,167	1,592,515
Other operating expenses	3,509,931	3,549,364	(39,433)
Total transfers to member states	19,433,635	18,538,479	895,156
Transfer to Vermont	3,516,545	3,418,837	97,708

Additional information regarding the Tri-State Lotto Commission may be obtained by contacting the Vermont Lottery Commission, 1311 US Route 302-Berlin, Suite 100, Barre, Vermont 05641.

F. Accounting Changes

Accounting changes related to government combinations

During the fiscal year, the operations of Vermont Telecommunications Authority (VTA) (a discretely presented component unit of the State of Vermont) were merged into the State's Department of Public Service. The combination became effective on July 1, 2015; under the provisions of GASB Statement No. 69, the merger date would be July 1, 2015, the beginning of the reporting period in which the combination occurred. The initial opening balances of VTA's assets, liabilities and net position as of the beginning of the period, were determined based on the carrying values reported in the separate financial statements of VTA as of June 30, 2015. The removal of VTA as a discretely presented component unit of the State resulted in a $10,158,391 restatement of opening net positon in the Statement of Activities for the component units. The merger of VTA resulted in a $10,158,391 restatement of opening net positon of governmental activities in the Statement of Activities. The following is a schedule of the adjusted balances recorded as of the merger date.

	State of Vermont Governmental Activities	VTA	Total
Assets			
Current assets	$1,107,085,231	$ 4,982,960	$1,112,068,191
Capital assets	2,538,406,358	6,258,795	2,544,665,153
Other non-current assets	408,365,752	-	408,365,752
Total assets	4,053,857,341	11,241,755	4,065,099,096
Deferred outflows of Resources			
Deferred outflow of resources	136,269,588	-	136,269,588
Total deferred outflow of resources	136,269,588	-	136,269,588
Liabilities			
Current liabilities	588,402,778	1,083,364	589,486,142
Non-current liabilities	2,677,327,952	-	2,677,327,952
Total liabilities	3,265,730,730	1,083,364	3,266,814,094
Deferred inflows of Resources			
Deferred inflow of resources	181,179,712	-	181,179,712
Total deferred inflow of resources	181,179,712	-	181,179,712
Net Position			
Net investment in capital assets	2,184,683,736	6,258,795	2,190,942,531
Restricted	609,149,347	3,557,774	612,707,121
Unrestricted	(2,050,616,596)	341,822	(2,050,274,774)
Total net position	$ 743,216,487	$ 10,158,391	$ 753,374,878

The merger required restatement of opening fund balances of the Special Fund. In order to reflect the modified accrual basis of accounting used in the Special Fund, an adjustment of $6,258,795 was made to the amount used in the restatement of opening net position in the governmental activities for the assets and liabilities that were merged following the accrual basis of accounting. This adjustment resulted in a restatement of opening fund balances of the Special Fund of $3,899,596.

	Special Fund	Governmental Activities
As originally reported	$ 79,638,459	$ 743,216,487
Restatements		
Recognition of opening net position of VTA upon merger date per GASB Statement No. 69	3,899,596	10,158,391
Restated amount	$ 83,538,055	$ 753,374,878

Accounting changes related to changes in reporting entity

Previously reported as a discretely presented component unit, but due to changes in the structure of the board of directors the Vermont Sustainable Jobs Fund Inc. (VSJF) no longer qualifies as a component unit of the State under GASB Statement No. 61, *Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. The removal of VSJF as a discretely presented component unit of the State resulted in a $1,303,138 restatement of opening net positon in the Statement of Activities for the component units.

Accounting changes related to implementation of new accounting standards

In February 2015, GASB issued Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application.* The Statement addresses accounting and financial reporting issues related to fair value measurements. The Statement provides guidance for determining a fair value measurement for financial reporting purposes. The University of Vermont and State Agriculture College (UVM) and the Vermont Economic Development Authority (VEDA) (discretely presented component units) present period-over-period comparative statements were required to restate their beginning net position as of July 1, 2014, for the cumulative effects of applying this statement.

Accounting changes related to prior period adjustments

Two discretely presented component units restated their beginning net position related to prior period adjustments. The Vermont Municipal Bond Bank (VMBB) restated beginning net position to reduce it by $887,406 to reflect the correct balance of the prior year's loans to municipalities listed under noncurrent assets. UVM restated beginning net position to increase it by $3,720,000 to reflect the correct amount of OPEB compensation & benefit expense during fiscal year 2015.

Restatement of net position

The effects of these accounting changes on net position of component units beginning net position were as follows:

(Table on next page.)

	UVM	VEDA	VMBB	VTA	VSJF
As originally reported	$ 506,663,000	$ 58,829,000	$ 35,841,766	$ 10,158,391	$ 1,303,138
Restatements					
Elimination of opening net position of VTA upon merger date	-	-	-	(10,158,391)	-
Elimination of opening net position of VSJF from change in reporting entity	-	-	-	-	(1,303,138)
Prior period restatement to for the cumulative effects of the implementation of GASB 72	17,074,000	(2,383,000)	-	-	-
Prior period restatement to reflect the correct balance on noncurrent assets: Loans to municipalities	-	-	(887,406)	-	-
Prior period restatement to reflect the correct amount of OPEB compensation & benefit expense	3,720,000	-	-	-	-
Restated amount	$ 527,457,000	$ 56,446,000	$ 34,954,360	$ -	$ -

G. Subsequent Events

The State has evaluated whether any events have occurred subsequent to June 30, 2016, that would require disclosure and has determined that no such events have occurred through the date which these financial statements were available to be issued.

Required Supplementary Information

(Unaudited)

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT STATE RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST THREE FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2016	2015	2014
Total pension liability			
Service cost	$ 47,012	$ 41,786	$ 39,369
Interest	171,563	164,405	156,635
Differences between expected and actual experience	25,051	3,979	-
Changes of assumptions	(21,853)	62,247	-
Benefit payments, including refunds of member contributions	(120,094)	(111,396)	(104,493)
Net change in total pension liability	101,679	161,021	91,511
Total pension liability, July 1	2,169,909	2,008,888	1,917,377
Total pension liability, June 30	2,271,588	2,169,909	2,008,888
Plan fiduciary net position			
Contributions - employer	54,347	55,881	56,483
Contributions - member	34,055	33,296	31,746
Net investment income (loss)	17,963	(8,485)	203,722
Benefit payments, including refunds of member contributions	(120,094)	(111,396)	(104,493)
Administrative expenses	(1,469)	(1,858)	(1,158)
Other	(13)	177	454
Net change in fiduciary net position	(15,211)	(32,385)	186,754
Plan fiduciary net position, beginning of year	1,624,861	1,657,246	1,470,492
Plan fiduciary net position, end of year	1,609,650	1,624,861	1,657,246
Net pension liability, June 30	$ 661,938	$ 545,048	$ 351,642
Plan fiduciary net position as a percentage of the total pension liability	70.86%	74.88%	82.50%
Covered employee payroll	$ 462,057	$ 437,676	$ 416,766
Net pension liability as a percentage of covered-employee payroll	143.26%	124.53%	84.37%
Notes to Schedule			
Change in assumptions:discount rate	7.95%	7.95%	8.15%

Benefit changes since June 30, 2014: None

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Plan Type: single employer

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

REQUIRED SUPPLEMENTARY INFORMATION
STATE TEACHERS' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST THREE FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2016	2015	2014
Total pension liability			
Service cost	$ 34,979	$ 33,614	$ 33,144
Interest	222,185	215,447	206,150
Differences between expected and actual experience	3,613	20,003	-
Changes of assumptions	(7,224)	57,489	-
Benefit payments, including refunds of member contributions	(162,751)	(150,734)	(140,846)
Net change in total pension liability	90,802	175,819	98,448
Total pension liability, July 1	2,839,622	2,663,802	2,565,354
Total pension liability, June 30	2,930,424	2,839,621	2,663,802
Plan fiduciary net position			
Contributions - non-employer	73,225	72,909	72,668
Contributions - member	35,409	34,864	32,559
Net investment income (loss)	19,877	(7,567)	212,338
Benefit payments, including refunds of member contributions	(162,751)	(150,734)	(140,847)
Administrative expenses	(1,798)	(2,259)	(26,116)
Other	3,822	538	411
Net change in fiduciary net position	(32,216)	(52,249)	151,013
Plan fiduciary net position, beginning of year	1,653,116	1,705,365	1,554,352
Plan fiduciary net position, end of year	1,620,900	1,653,116	1,705,365
Net pension liability, June 30	$ 1,309,524	$ 1,186,505	$ 958,437
Plan fiduciary net position as a percentage of the total pension liability	55.31%	58.22%	64.02%
Covered employee payroll	$ 557,708	$ 567,074	$ 563,623
Net pension liability as a percentage of covered-employee payroll	234.80%	209.23%	170.05%
Notes to Schedule			
Change in assumptions:discount rate	7.95%	7.95%	8.15%

Benefit changes since June 30, 2014: None

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Plan Type: cost sharing muliple employer with a special funding situation

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
VERMONT MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
LAST THREE FISCAL YEARS
(Dollar amounts expressed in thousands)
(Unaudited)

	2016	2015	2014
Total pension liability			
Service cost	$ 25,264	$ 24,366	$ 22,519
Interest	49,744	46,058	42,139
Differences between expected and actual experience	1,088	3,046	-
Changes of assumptions	12,204	19,192	-
Benefit payments, including refunds of member contributions	(25,589)	(23,314)	(20,601)
Net change in total pension liability	62,711	69,348	44,057
Total pension liability, July 1	613,000	543,652	499,595
Total pension liability, June 30	675,711	613,000	543,652
Plan fiduciary net position			
Contributions - employer	15,236	14,136	12,806
Contributions - member	15,227	13,588	13,234
Net investment income (loss)	6,777	(2,359)	64,346
Benefit payments, including refunds of member contributions	(25,589)	(23,315)	(20,601)
Administrative expenses	(755)	(950)	(588)
Other	215	279	2,143
Net change in fiduciary net position	11,111	1,379	71,340
Plan fiduciary net position, beginning of year	535,904	534,525	463,186
Plan fiduciary net position, end of year	547,015	535,904	534,526
Net pension liability, June 30	$ 128,696	$ 77,096	$ 9,126
Plan fiduciary net position as a percentage of the total pension liability	80.95%	87.42%	98.32%
Covered employee payroll	$ 249,811	$ 230,969	$ 220,372
Net pension liability as a percentage of covered-employee payroll	51.52%	33.38%	4.14%
Notes to Schedule			
Change in assumptions:discount rate	7.95%	7.95%	8.15%

Benefit changes since June 30, 2014: None

For the 2016 GASB 67 valuation, the actuarial assumptions regarding the incidence of mortality, terminations, retirements, and disabilities were changed in accordance with the findings of an experience study covering the five-year period ending June 30, 2014.

Plan Type: cost sharing muliple employer

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENFIT PLANS
SCHEDULE OF INVESTMENT RETURNS
LAST THREE FISCAL YEARS
(Unaudited)

	2016	2015	2014
VERMONT STATE RETIREMENT SYSTEM			
Annual money-weighted rate of return, net of investment expense	1.44%	-0.50%	14.05%
STATE TEACHERS' RETIREMENT SYSTEM			
Annual money-weighted rate of return, net of investment expense	1.69%	-0.40%	13.83%
VERMONT MUNICIPAL EMPLOYEES RETIREMENT SYSTEM			
Annual money-weighted rate of return, net of investment expense	1.56%	-0.51%	14.13%

GASB No. 67 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
SCHEDULE OF EMPLOYER AND NONEMPLOYER CONTRIBUTIONS
LAST THREE FISCAL YEARS
(dollar amounts expressed in thousands)
(Unaudited)

Retirement System	Year Ended 6/30	Actuarially Determined Contribution (ADC)	Contributions in Relation to ADC	Contribution (Excess) Deficiency	Covered Employee Payroll (CEP)	Contribution as a Percent of CEP
Vermont State	2016	$ 46,238	$ 54,347	$ (8,109)	$ 462,057	11.76%
Retirement System	2015	44,652	55,881	(11,229)	437,676	12.77%
	2014	42,786	56,483	(13,697)	416,766	13.55%
State Teachers'	2016	$ 76,103	$ 76,948	$ (845)	$ 557,708	13.80%
Retirement System[1]	2015	72,858	72,909	(51)	567,074	12.86%
	2014	68,353	72,668	(4,315)	563,623	12.89%
Vermont Municipal Employees'	2016	$ 15,236	$ 15,236	$ -	$ 249,811	6.10%
Retirement System	2015	14,136	14,136	-	230,969	6.12%
	2014	12,806	12,806	-	220,372	5.81%

Notes to Schedule

[1] Included in the ADC is an actuarially determined contribution rate that is applied to the total earnable compensation for teachers whose funding is provided by federal grants and is paid by the employer to the STRS.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLANS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

Valuation date
Actuarially determined contributions rates are calculated as of June 30 (VSRS and STRS) and July 1 (MERS), two years prior to the end of the fiscal year in which contributions are reported.

	VSRS	STRS	MERS
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage of payroll	Level percentage of payroll	Installments increasing 5% per year
Remaining amortization period All closed basis	23 years	23 years	23 years
Asset valuation method	Preliminary Asset Value plus 20% of difference between market and preliminary asset values	Preliminary Asset Value plus 20% of difference between market and preliminary asset values	Actuarial value of assets using a five year smoothing technique
Actuarial assumptions			
Investment rate of return [1]	7.95%	7.95%	7.95%
Projected salary increases	3.50%-6.21%	4.12%-8.15%	5%
Cost of living adjustments	1.5%-3.0%	1.5%-3.0%	Group A - 1.5% Groups B, C & D - 1.8%
Post Retirement Adjustments			
Allowances in payment for at least one year adjusted for cost of living based on CPI but not in excess of percentage indicated	Groups A, C & D - 5%	Group A - 5%	N/A
Allowances in payment for at least one year increased on January 1 by one-half of the percentage increase in CPI but not in excess of percentage indicated	Group F - 5% [2]	Group C - 5%	Group A - 2% Groups B, C & D - 3%
Assumed annual rate of cost-of-living increases	For those eligible for increases of 100% of CPI change: 3.0% For those eligible for increases of 50% of CPI change: 1.5%	For those eligible for increases of 100% of CPI change: 3.0% For those eligible for increases of 50% of CPI change: 1.5%	

[1] Through the 2014 valuations, a select-and-ultimate interest rate set was used ranging from 6.25% in year 1 to 9% in years 17 and later
[2] Effective January 1, 2014, the Group F employees who were actively contributing into the system on June 30, 2008, and retired on or after July 1, 2008, are eligible for 100% of CPI.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS[1]
(dollar amounts expressed in thousands)
(unaudited)

	Vermont State Retirement System			State Teachers' Retirement System[2]		
	2016	2015	2014	2016	2015	2014
State's proportion of net pension liability	98.3289%	98.2355%	98.1400%	100%	100%	100%
State's proportionate share of the net pension liability	$ 535,939	$ 345,437	$ 438,573	$ 1,186,505	$ 958,437	$ 1,011,002
Plan fiduciary net position as a percentage of the total pension liability	74.88%	82.50%	76.69%	58.22%	64.02%	60.59%

[1]The amounts presented for each fiscal year were determined by an actuarial valuation on June 30 two years prior to the fiscal year. The measurement period and measurement date is one year prior to the fiscal year.

[2]The State Teacher's Retirement System has a special funding situation where the State, as the non-employer contributing entity, is responsible for the net pension liability.

GASB No. 68 required supplementary information is not available for fiscal years prior to 2014. Data for future years will be added prospectively.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFIT PLANS
SCHEDULE OF FUNDING PROGRESS
(dollar amounts expressed in thousands)
(Unaudited)

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Vermont State Postemployment Benefit Trust Fund [1]						
2016	$ 21,353	$ 1,165,803	$ 1,144,450	1.83%	$ 497,222	230.17%
2015	19,904	1,113,023	1,093,119	1.79%	488,949	223.57%
2014	18,904	1,092,728	1,073,824	1.73%	464,517	231.17%
2013	15,663	947,864	932,201	1.65%	436,949	213.34%
2012	13,379	1,011,783	998,404	1.32%	406,929	245.35%
2011	11,216	1,009,792	998,576	1.11%	420,321	237.57%
Retired Teachers' Medical and Health Benefit Fund [2]						
2016	$ (20,961)	$ 656,937	$ 677,898	-3.19%	$ 606,843	111.71%
2015 [3]	(10,056)	993,037	1,003,093	-1.01%	576,255	174.07%
2014	-	766,775	766,775	0.00%	565,658	135.55%
2013	-	712,666	712,666	0.00%	563,534	126.46%
2012	-	827,180	827,180	0.00%	561,026	147.44%
2011	-	780,032	780,032	0.00%	547,748	142.41%

[1] Based on a discount rate of 4.25% for 2010 - 2013, and 4.00% for 2014 - 2016.

[2] Based on a discount rate of 4.00%.

[3] For years prior to 2015 there was no explicit funding for these benefits. Effective 7/1/2014, Act 179 of 2014 section E.514.1 created this fund and provided for explicit contributions for funding these benefits on a pay-as-you-go basis.

See Independent Auditor's Report.

STATE OF VERMONT
REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BEEFIT PLANS
SCHEDULE OF EMPLOYER AND NON-EMPLOYER CONTRIBUTIONS
(dollar amounts expressed in thousands)
(Unaudited)

	Year Ended 6/30	Annual Required Contribution	Percentage Contributed
Vermont State Postemployment Benefit Trust Fund			
	2016	$ 69,021	44.80%
	2015	71,496	40.60%
	2014	64,119	37.85%
	2013	67,977	37.60%
	2012	69,880	39.57%
	2011	67,030	40.87%
Retired Teachers' Health and Medical Benefits Fund (1)			
	2016	$ 52,106	29.12%
	2015	40,988	35.78%
	2014	39,239	NA
	2013	45,458	NA
	2012	43,411	NA
	2011	41,509	NA

(1) For years prior to 2015 there was no explicit funding for these benefits. Effective 7/1/2014, Act 179 of 2014 section E.514.1 created this fund and provided for explicit contributions for funding these benefits on a pay-as-you-go basis.

See Independent Auditor's Report.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,401,330,000	$ 1,396,531,400	$ 1,380,092,100	$ (16,439,300)
Earnings of Departments	23,100,000	22,100,000	22,984,948	884,948
Other	8,900,000	10,000,000	9,343,372	(656,628)
Total revenues	1,433,330,000	1,428,631,400	1,412,420,420	(16,210,980)
Expenditures				
General Government				
Agency of Administration	43,144,756	45,966,319	43,160,106	(2,806,213)
Executive Office	1,658,841	1,690,084	1,688,482	(1,602)
Legislative Council	11,427,652	11,621,902	10,842,706	(779,196)
Joint Fiscal Office	1,621,374	2,187,187	1,626,363	(560,824)
Sergeant at Arms	646,356	708,801	638,471	(70,330)
Lieutenant Governor's Office	185,464	185,208	180,605	(4,603)
Auditor of Accounts	394,171	416,349	336,966	(79,383)
State Treasurer	998,306	1,072,655	851,091	(221,564)
State Labor Relations Board	231,827	235,820	230,342	(5,478)
VOSHA Review Board	30,153	40,139	38,148	(1,991)
Homeowner Property Tax Assistance	18,200,000	15,749,756	15,178,385	(571,371)
Renter Rebate Tax Assistance	2,910,000	2,825,000	2,822,285	(2,715)
Protection to Persons and Property				
Attorney General	5,628,558	6,155,399	5,852,771	(302,628)
Defender General	15,114,514	15,597,647	15,284,959	(312,688)
Judiciary	39,383,850	39,524,710	38,754,246	(770,464)
State's Attorneys and Sheriffs	16,278,997	17,329,973	16,094,508	(1,235,465)
Department of Public Safety	40,678,465	42,547,362	40,735,185	(1,812,177)
Military Department	3,902,622	4,443,919	3,815,034	(628,885)
Center Crime Victim Services	1,264,008	1,264,008	1,263,519	(489)
Criminal Justice Training Council	2,372,753	2,371,830	2,273,934	(97,896)
Agency of Agriculture, Food and Markets	8,102,414	10,631,771	7,974,659	(2,657,112)
Public Service Department	-	185,380	34,212	(151,168)
Human Rights Commission	450,152	479,322	425,675	(53,647)
Human Services				
Agency of Human Services	656,364,683	676,762,663	651,699,653	(25,063,010)
Green Mountain Care Board	921,851	984,075	623,965	(360,110)
Governor's Commission on Women	351,364	398,869	336,671	(62,198)
Human Services Board	223,361	174,846	174,846	-
Vermont Veterans' Home	5,482,923	5,835,522	5,835,522	-
Labor				
Department of Labor	3,264,327	4,953,445	3,018,872	(1,934,573)
General Education				
Agency of Education	9,567,661	9,790,022	9,235,380	(554,642)
State Teacher's Retirement	88,679,377	88,679,377	88,679,377	-
Higher Education	83,281,346	83,281,346	83,281,346	-

continued on next page

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GENERAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	27,017,930	27,573,867	25,844,591	(1,729,276)
Natural Resources Board	639,419	619,186	619,186	-
Commerce and Community Development				
Agency of Commerce and Community Development	13,619,833	17,180,396	12,582,760	(4,597,636)
Cultural Development	1,952,100	1,985,282	1,985,282	-
Total expenditures	1,105,991,408	1,141,449,437	1,094,020,103	(47,429,334)
Excess of revenues over expenditures	327,338,592	287,181,963	318,400,317	31,218,354
Other Financing Sources (Uses)				
Transfers in	12,901,248	56,074,364	56,074,364	-
Transfers out	(373,713,380)	(379,473,753)	(379,473,753)	-
Premium on sale of bonds	-	2,727,443	2,727,443	-
Refunding bonds issued	-	25,564,735	25,564,735	-
Payment to escrow agent	-	(28,292,178)	(28,292,178)	-
Total other financing sources (uses)	(360,812,132)	(323,399,389)	(323,399,389)	-
Excess of revenues and other sources over (under) expenditures and other uses	(33,473,540)	(36,217,426)	(4,999,072)	31,218,354
Fund balance, July 1	130,437,512	130,437,512	130,437,512	-
Fund balance, June 30	$ 96,963,972	$ 94,220,086	$ 125,438,440	$ 31,218,354

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
TRANSPORTATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 164,900,000	$ 166,000,000	$ 163,953,055	$ (2,046,945)
Motor vehicle fees	80,700,000	81,800,000	81,963,772	163,772
Federal	342,305,346	361,235,551	272,506,846	(88,728,705)
Other	35,400,000	34,000,000	37,171,640	3,171,640
Total revenues	623,305,346	643,035,551	555,595,313	(87,440,238)
Expenditures				
General Government				
Agency of Administration	6,034,714	4,111,554	4,111,553	(1)
Protection to Persons and Property				
Department of Public Safety	22,750,000	22,750,000	22,750,000	-
Transportation				
Agency of Transportation	595,199,426	635,069,567	538,493,943	(96,575,624)
Total expenditures	623,984,140	661,931,121	565,355,496	(96,575,625)
Excess of revenues over (under) expenditures	(678,794)	(18,895,570)	(9,760,183)	9,135,387
Other financing sources (uses)				
Transfers in	-	151,045	151,045	-
Transfers out	(6,479,814)	(6,553,311)	(6,553,311)	-
Total other financing sources (uses)	(6,479,814)	(6,402,266)	(6,402,266)	-
Excess of revenues and other sources over (under) expenditures and other uses	(7,158,608)	(25,297,836)	(16,162,449)	9,135,387
Fund balance, July 1	19,943,617	19,943,617	19,943,617	-
Fund balance (deficit), June 30	$ 12,785,009	$ (5,354,219)	$ 3,781,168	$ 9,135,387

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
EDUCATION FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Taxes	$ 1,220,114,590	$ 1,218,714,590	$ 1,215,687,979	$ (3,026,611)
Interest and premiums	100,000	100,000	168,801	68,801
Total revenues	1,220,214,590	1,218,814,590	1,215,856,780	(2,957,810)
Expenditures				
General Government				
Grand List	3,425,000	3,851,879	3,465,433	(386,446)
Renter Rebates	6,790,000	6,475,000	6,474,352	(648)
Human Services				
Agency of Human Services	3,554,425	3,888,374	3,686,513	(201,861)
General Education				
Agency of Education	1,537,744,842	1,546,547,831	1,531,209,013	(15,338,818)
Total expenditures	1,551,514,267	1,560,763,084	1,544,835,311	(15,927,773)
Excess of revenues over (under) expenditures	(331,299,677)	(341,948,494)	(328,978,531)	12,969,963
Other financing sources (uses)				
Transfers in	339,370,579	339,370,579	339,370,579	-
Total other financing sources (uses)	339,370,579	339,370,579	339,370,579	-
Excess of revenues and other sources over (under) expenditures and other uses	8,070,902	(2,577,915)	10,392,048	12,969,963
Fund balance, July 1	72,067,796	72,067,796	72,067,796	-
Fund balance, June 30	$ 80,138,698	$ 69,489,881	$ 82,459,844	$ 12,969,963

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Special Fund Revenues	$ 610,125,322	$ 748,574,721	$ 628,974,135	$ (119,600,586)
Total revenues	610,125,322	748,574,721	628,974,135	(119,600,586)
Expenditures				
General Government				
Agency of Administration	32,579,025	44,605,084	30,068,459	(14,536,625)
Executive Office	413,388	413,388	336,485	(76,903)
Joint Fiscal Office	-	90,000	76,563	(13,437)
Sergeant at Arms	-	22,827	6,971	(15,856)
Auditor of Accounts	53,145	53,145	53,145	-
State Treasurer	2,446,615	3,163,196	2,591,612	(571,584)
State Labor Relations Board	9,576	9,576	9,063	(513)
VOSHA Review Board	30,153	40,140	38,149	(1,991)
Unorganized Towns and Gores	-	500,000	353,484	(146,516)
Protection to Persons and Property				
Attorney General	5,253,869	6,724,660	5,503,950	(1,220,710)
Defender General	638,552	619,767	583,581	(36,186)
Judiciary	5,032,606	10,119,394	3,641,446	(6,477,948)
State's Attorneys and Sheriffs	2,639,128	2,801,364	2,597,670	(203,694)
Department of Public Safety	17,743,721	20,286,032	17,143,963	(3,142,069)
Military Department	280,008	446,011	338,017	(107,994)
Center Crime Victim Services	4,914,287	5,133,238	5,016,754	(116,484)
Criminal Justice Training Council	133,642	133,642	82,402	(51,240)
Agency of Agriculture, Food and Markets	8,596,600	10,000,382	8,431,383	(1,568,999)
Department of Financial Regulation	14,786,730	15,597,426	14,639,785	(957,641)
Secretary of State	9,069,697	9,069,697	8,817,806	(251,891)
Public Service Department	15,006,100	19,620,830	10,063,268	(9,557,562)
Public Service Board	3,480,181	3,480,211	3,098,369	(381,842)
Enhanced 911 Board	4,604,830	6,359,545	6,250,510	(109,035)
Department of Liquor Control	418,944	494,660	333,110	(161,550)
Human Services				
Agency of Human Services	416,543,483	459,774,168	426,267,964	(33,506,204)
Green Mountain Care Board	4,141,376	4,917,436	3,389,098	(1,528,338)
Governor's Commission on Women	5,000	7,250	1,907	(5,343)
Human Services Board	297,092	149,337	22,788	(126,549)
Vermont Veterans Home	8,732,204	10,639,903	10,414,052	(225,851)
Labor				
Department of Labor	5,872,872	5,872,872	4,543,515	(1,329,357)
General Education				
Agency of Education	23,065,200	23,679,409	18,108,597	(5,570,812)
Higher Education	494,500	494,500	494,500	-

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STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
SPECIAL FUND (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Expenditures				
Natural Resources				
Agency of Natural Resources	44,972,538	53,428,194	41,808,796	(11,619,398)
Natural Resources Board	2,330,897	2,370,897	2,321,412	(49,485)
Commerce and Community Development				
Agency of Commerce and Community Development	10,207,230	17,964,258	11,811,358	(6,152,900)
Cultural Development	-	32,500	32,500	-
Transportation				
Agency of Transportation	2,120,000	3,579,973	1,740,677	(1,839,296)
Total expenditures	646,913,189	742,694,912	641,033,109	(101,661,803)
Excess of revenues over expenditures	(36,787,867)	5,879,809	(12,058,974)	(17,938,783)
Other Financing Sources (Uses)				
Proceeds on sale of refunding bonds	-	155,265	155,265	-
Transfers in	51,956,758	58,077,440	58,077,440	-
Transfers out	(15,168,891)	(63,957,249)	(63,957,249)	-
Total other financing sources (uses)	36,787,867	(5,724,544)	(5,724,544)	-
Excess of revenues and other sources over (under) expenditures and other uses	-	155,265	(17,783,518)	(17,938,783)
Fund balance, July 1	156,070,840	156,070,840	156,070,840	-
Fund balance, June 30	$ 156,070,840	$ 156,226,105	$ 138,287,322	$ (17,938,783)

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
FEDERAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Federal	$ 1,245,514,905	$ 1,815,544,196	$ 1,739,212,541	$ (76,331,655)
Interest and premiums	-	59,866	59,866	-
Other	-	93,524	93,524	-
Total revenues	1,245,514,905	1,815,697,586	1,739,365,931	(76,331,655)
Expenditures				
General Government				
Agency of Administration	1,040,195	1,040,195	875,820	(164,375)
State Treasurer	-	291,159	291,159	-
Protection to Persons and Property				
Attorney General	829,609	986,274	856,283	(129,991)
Judiciary	473,301	918,976	705,786	(213,190)
State's Attorneys and Sheriffs	31,000	31,000	14,330	(16,670)
Department of Public Safety	23,376,947	24,844,610	15,557,236	(9,287,374)
Military Department	18,570,913	39,422,473	24,153,689	(15,268,784)
Center Crime Victim Services	4,413,384	4,832,324	4,693,913	(138,411)
Agency of Agriculture, Food and Markets	2,769,434	3,345,845	2,725,046	(620,799)
Department of Financial Regulation	110,716	110,716	110,716	-
Secretary of State	932,402	1,125,561	1,122,108	(3,453)
Public Service Department	1,240,268	3,818,435	1,955,219	(1,863,216)
Human Rights Commission	66,720	82,850	76,301	(6,549)
Department of Liquor Control	254,841	254,841	196,547	(58,294)
Human Services				
Agency of Human Services	1,319,713,810	1,472,623,769	1,399,730,203	(72,893,566)
Green Mountain Care Board	928,466	1,078,619	538,838	(539,781)
Governor's Commission on Women	-	173,794	-	(173,794)
Human Services Board	262,858	130,432	-	(130,432)
Vermont Veterans' Home	7,400,081	7,400,081	3,694,445	(3,705,636)
Labor				
Department of Labor	26,941,460	26,941,460	22,224,494	(4,716,966)
General Education				
Agency of Education	128,546,812	128,546,812	124,583,418	(3,963,394)
Natural Resources				
Agency of Natural Resources	15,351,137	37,752,430	34,556,025	(3,196,405)
Commerce and Community Development				
Agency of Commerce and Community Development	9,777,731	59,791,540	23,246,930	(36,544,610)
Total expenditures	1,563,032,085	1,815,544,196	1,661,908,506	(153,635,690)
Excess of revenues over expenditures	(317,517,180)	153,390	77,457,425	77,304,035
Other Financing Sources (Uses)				
Transfers out	(21,853,316)	(38,070,236)	(38,070,236)	-
Total other financing sources (uses)	(21,853,316)	(38,070,236)	(38,070,236)	-
Excess of revenues and other sources over (under) expenditures and other uses	(339,370,496)	(37,916,846)	39,387,189	77,304,035
Fund balance, July 1	107,505,980	107,505,980	107,505,980	-
Fund balance, June 30	$ (231,864,516)	$ 69,589,134	$ 146,893,169	77,304,035

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

STATE OF VERMONT
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) SCHEDULE
GLOBAL COMMITMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

	Original Budget	Final Budget	Actual (Budgetary Basis)	Over (Under)
Revenues				
Global Commitment Premiums	$ 1,325,200,000	$ 1,533,700,000	$ 1,633,987,367	$ 100,287,367
Total revenues	1,325,200,000	1,533,700,000	1,633,987,367	100,287,367
Expenditures				
Protection to Persons and Property				
Agency of Agriculture, Food & Markets	90,278	90,278	90,278	-
Human Services				
Agency of Human Services	1,310,986,478	1,598,563,383	1,560,541,454	(38,021,929)
Green Mountain Care Board	3,154,685	3,213,055	2,188,900	(1,024,155)
Vermont Veterans' Home	410,986	410,986	410,986	-
General Education				
Higher Education	4,455,678	4,455,678	4,455,678	-
Agency of Education	938,187	938,187	883,954	(54,233)
Total expenditures	1,320,036,292	1,607,671,567	1,568,571,250	(39,100,317)
Excess of revenues over (under) expenditures	5,163,708	(73,971,567)	65,416,117	139,387,684
Other financing sources (uses)				
Transfers out	(26,141,689)	(26,141,689)	(26,141,689)	-
Total other financing sources (uses)	(26,141,689)	(26,141,689)	(26,141,689)	-
Excess of revenues and other sources over (under) expenditures and other uses	(20,977,981)	(100,113,256)	39,274,428	139,387,684
Fund balance, July 1	47,569,787	47,569,787	47,569,787	-
Fund balance (deficit), June 30	$ 26,591,806	$ (52,543,469)	$ 86,844,215	$ 139,387,684

See Independent Auditor's Report. The accompanying notes are an integral part of the required supplementary information.

Note to the Required Supplementary Information—Budgetary Reporting (unaudited)

Budgetary Comparison Schedules

The budgetary schedules provide a comparison of the original and final adopted budget with actual data on a budgetary basis for the Governmental Funds. The State compiles a separate legal basis budgetary report, which shows the legal compliance with the budget. Budgetary comparison schedules showing legal level detail may be obtained by contacting the State of Vermont, Department of Finance and Management, 109 State Street, 5th Floor, Pavilion Building, Montpelier, Vermont 05609-0401.

Budgetary Process

Vermont statutes require the head of every State department, board, and commission and any officer or individual responsible for any activity for which funds are appropriated by the Vermont Legislature to provide, on or before September 1 preceding any biennium, statements to the Commissioner of Finance and Management showing in detail the amounts appropriated and expended for both the current and preceding fiscal years and the amount estimated to be necessary for similar activity for the ensuing two fiscal years. The Commissioner of Finance and Management and the Secretary of Administration are then required to submit to the Governor by November 15 preceding each biennium, the estimates as received along with any other estimates for the ensuing two fiscal years. The Governor then submits to the Vermont Legislature, no later than the third Tuesday of every annual session, a budget that embodies estimates, requests, and recommendations for appropriations or other authorizations for expenditures from the State treasury for at least the succeeding fiscal year. The Vermont Legislature then enacts into law an appropriations act that must be approved by the Governor before expenditures can be made. In recent years in accordance with Act 250 of 1979 Section 125, it has been the practice of the Governor to submit an annual budget and the Vermont Legislature to enact appropriations on an annual basis.

Budgets are prepared and appropriated on a cash basis and usually at the program level. The Governor may amend appropriations or transfer appropriations within limits established by 32 V.S.A. Chapter 9. The Agency of Administration maintains budgetary control by fund at the appropriation level. Governmental funds' unspent appropriation balances revert to the fund balance at the end of each fiscal year for re-appropriation unless authorized to be carried forward to the following year(s) by legislative act. Unexpended balances of capital projects funds are available for expenditure in the following fiscal year(s).

Revenue Estimates

By July 31 each year, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues in the General, Transportation, Education, and Global Commitment Funds. The Emergency Board then has 10 days to determine the original revenue estimates for the fiscal year. For the Special and Federal Revenue Funds the original budget for revenues is based on the amount appropriated for expenditures. By January 15, the Joint Fiscal Office and the Secretary of Administration provide to the Emergency Board their respective estimates of State revenues and the Emergency Board determines any revision to the July revenue estimates.

Expenditure and Transfer Budgets

The original budgets for expenditures and transfers are determined by the Legislature through the passage of the annual Appropriation Act. The Commissioner of Finance and Management (with approval from the Governor) may transfer balances of appropriations not to exceed $50,000 made under any appropriation act for the support of the government from one component of an agency, department, or other unit of State government, to any component of the same agency, department, or unit; and may transfer balances of appropriations made under any appropriation act from one department or unit of the agency of transportation to another department or unit of the agency of transportation for the specific purpose of funding authorized transportation projects which have been approved by the federal government for advance construction in which the expenditure of State funds will be reimbursed by federal funds when the federal funds become available, and the transfer is limited to funds which have been approved for reimbursement. If any receipts including federal receipts exceed the appropriated amounts, the receipts may be allocated and expended, subject to the approval of the Secretary of Administration. If, however, the expenditure of those receipts will establish or increase the scope of the program, which establishment or increase will at any time commit the State to the expenditure of State funds, they may be expended only upon the approval of the Legislature. The full faith and credit of the

State has been pledged to support various programs. Any payments that are required to be made by the Treasurer are paid in accordance with Vermont Statutes and do not require an appropriation by the Legislature.

Budget and GAAP Basis Reporting

The accompanying budgetary comparison schedules report the actual revenues, expenditures and other financing sources (uses) on a budget basis, which differs significantly from GAAP. These different accounting principles result in basis, perspective, and entity differences in the fund balance - budgetary basis. *Basis differences* arise because the basis of budgeting (cash basis) differs from the GAAP basis used to prepare the statement of revenues, expenditures, and changes in fund balances - governmental funds. *Perspective differences* result because the Appropriation Act's program-oriented structure differs from the fund structure required for GAAP. *Entity differences* arise because certain activity reported within the State's financial reporting entity for GAAP purposes is excluded from the Appropriation Act. The following presents a reconciliation of the budgetary basis and GAAP basis fund balances for the funds reported in the accompanying schedules for the fiscal year ended June 30, 2016:

	General Fund	Transportation Fund	Education Fund	Special Fund	Federal Revenue Fund	Global Commitment Fund
Fund Balance - Budgetary Basis	$ 125,438,440	$ 3,781,168	$ 82,459,844	$ 138,287,322	$ 146,893,169	$ 86,844,215
Basis differences						
Cash not in budget balances	(521,463)	83,141	48	1,075,447	2,918	(8,486)
Preferred stock investment	-	-	-	100,000	-	-
Taxes receivable	222,948,073	9,035,249	16,763,061	4,808,863	-	-
Notes and loans receivable	411,749	-	-	1,925,868	-	-
Other receivables	7,677,496	8,458,979	-	15,084,059	(69,223,995)	34,406,717
Interest receivable	149,787	-	-	-	-	-
Due from other funds	709,058	148,902	9	4,411,092	815,151	60,244,030
Due from federal government	-	46,851,106	-	-	100,725,745	87,140,151
Due from component units	5,500,000	-	-	423,766	-	-
Accounts payable	(18,434,966)	(36,108,030)	(12,854,838)	(12,487,190)	(41,516,383)	(140,318,313)
Accrued liabilities	(14,873,508)	(7,343,780)	(184,905)	(5,049,979)	(8,386,310)	(5,098,302)
Retainage payable	(679,628)	(59,944)	-	(592,669)	(866,131)	(413,023)
Unearned revenue	-	(166,987)	-	(126,893)	(85,785)	-
Tax refunds payable	(24,313,435)	-	(78,270)	(16,215)	-	-
Intergovernment payables	-	-	-	-	(25,973,314)	(2,945,835)
Due to other funds	(33,392,445)	(2,679,571)	(23,328)	(42,467,078)	(6,449,244)	(414,378)
Unavailable revenue	(131,327,052)	(6,732,457)	(4,401,858)	(16,779,175)	(489,236)	(13,569,926)
Entity differences						
Blended non-budgeted funds	-	3,703,994	-	21,008,179	357,608,019	-
Perspective differences						
Component unit included in budgeted funds	-	-	-	-	222,135	-
Fund Balance - GAAP Basis	$ 139,292,106	$ 18,971,770	$ 81,679,763	$ 109,605,397	$ 453,276,739	$ 105,866,850

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APPENDIX B

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the State of Vermont (the "Issuer") in connection with the issuance of its $34,700,000 General Obligation Bonds, 2017 Series A (Vermont Citizen Bonds) (the "Series A Bonds") and its $71,395,000 General Obligation Bonds, 2017 Series B (the "Series B Bonds," and together with the Series A Bonds, the "Bonds"). The Bonds are being issued by the State Treasurer, with the approval of the Governor, for various capital purposes of the State pursuant to Chapter 13 of Title 32 of the Vermont Statutes Annotated, as amended and pursuant to specific Acts of the General Assembly. The Issuer covenants and agrees for the benefit of the Beneficial Owners of the Bonds as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

SECTION 2. Definitions. The following capitalized terms shall have the following meanings when used herein:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person that has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the State Treasurer or his or her designee, or such other officer or employee as the Issuer shall designate in writing from time to time.

"Dissemination Agent" shall mean the State Treasurer, or any successor Dissemination Agent designated in writing by the Issuer and that has filed with the Issuer a written acceptance of such designation.

"Holder" or "Bondholder" means the registered owner of a Bond.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement. Filing information for the MSRB is set forth in Exhibit B hereto.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Vermont.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, within one year after the end of the Issuer's fiscal year (presently June 30), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall promptly file a notice of such change with the MSRB.

(b) Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

> Item 1. The audited financial statements of the Issuer for the most recently ended fiscal year were prepared in accordance with GAAP as promulgated to apply to governmental entities by the Governmental Accounting Standards Board. The future audited financial statements of the Issuer will be prepared either in accordance with GAAP as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board or using the modified cash basis of accounting which recognizes transactions only when cash changes hands. If the Issuer's audited financial statements are not completed by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements of the Issuer shall be filed in the same manner as the Annual Report when they become available; and
>
> Item 2. Information concerning the Issuer's operations by updating the financial and operating data contained in the sections entitled "State Funds and Revenues," "Recent General Fund, Transportation Fund and Education Fund Operating Results," "Major Government Programs and Services," "Governmental Funds Operations," "State Indebtedness" and "Pension Plans" in the Official Statement of the State for the Bonds dated August 22, 2017 with respect to the Series A Bonds and August 23, 2017 with respect to the Series B Bonds.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB's Internet Web site or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events (each, a "Listed Event") with respect to the Bonds:

(i) principal and interest payment delinquencies.

(ii) non-payment related defaults, if material.

(iii) unscheduled draws on the debt service reserves reflecting financial difficulties.

(iv) unscheduled draws on the credit enhancements reflecting financial difficulties.

(v) substitution of the credit or liquidity providers or their failure to perform.

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

(vii) modifications to rights of Bondholders, if material.

(viii) optional, contingent or unscheduled calls of bonds, if material, and tender offers.

(ix) defeasances.

(x) release, substitution or sale of property securing repayment of the Bonds, if material.

(xi) rating changes.

(xii) bankruptcy, insolvency, receivership or similar event of the Issuer.[†]

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material

(b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The initial Dissemination Agent shall be the State Treasurer.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original

[†] As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided pursuant to the terms of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) the Issuer shall promptly file a notice of such change with the MSRB, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Agreement, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default pursuant to the terms of the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _________, 2017

STATE OF VERMONT, as Issuer

By: ____
Elizabeth A. Pearce
Treasurer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Vermont
Name of Bond Issue:	General Obligation Bonds, 2017 Series A (Vermont Citizen Bonds) and General Obligation Bonds, 2017 Series B
Date of Issuance:	September __, 2017

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated September __, 2017. The Issuer anticipates that the Annual Report will be filed by _______________.

Dated: ____________

STATE OF VERMONT, as Issuer

By: ____

EXHIBIT B

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board

http://emma.msrb.org

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APPENDIX C

FORM OF BOND COUNSEL OPINION

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PROPOSED FORM OF OPINION OF BOND COUNSEL

(Date of Delivery)

The Honorable Philip B. Scott
Governor of Vermont
The State Capitol
109 State Street
Montpelier, Vermont 05609

$34,700,000
State of Vermont
General Obligation Bonds, 2017 Series A
(Vermont Citizen Bonds)
Dated Date of Delivery

and

$71,395,000
State of Vermont
General Obligation Bonds, 2017 Series B
Dated Date of Delivery

We have acted as bond counsel to the State of Vermont (the "State") in connection with the issuance by the State of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the State contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the State, and the full faith and credit of the State are pledged for the payment of the principal of and interest on the Bonds.

2. Interest on the Bonds is exempt from Vermont personal income taxes and Vermont corporate income taxes. We express no opinion regarding any other Vermont tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Vermont.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes; however, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the State with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The State has covenanted to comply

with all such requirements. Failure by the State to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

LOCKE LORD LLP

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STATE OF VERMONT • General Obligation Bonds, 2017 Series A (Vermont Citizen Bonds) (Negotiated) and General Obligation Bonds, 2017 Series B (Competitive)

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