

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's affirms Vermont's Aa2 transportation infrastructure bonds and property transfer tax bonds; outlook stable

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New York, October 23, 2018 -- Moody's Investors Service has affirmed the Aa2 rating on the State of Vermont's special obligation transportation infrastructure bonds (series 2010, 2012 and 2013) and the Aa2 rating on the Vermont Housing Finance Agency's property transfer tax revenue bonds (series 2018). The outlook remains stable.

RATINGS RATIONALE

The Aa2 rating on the state's transportation infrastructure bonds reflects a healthy tax base, a broad special tax pledge of motor fuel taxes, strong limitations on leveraging pledged motor fuel taxes and very healthy debt service coverage. The rating considers recent declines in pledged motor fuel taxes, but balances this against state action to set a floor in the taxable price of gasoline to mitigate the effects of large price declines.

The Aa2 rating on the property transfer tax bonds is heavily supported by the strong coverage provided by property transfer taxes and statutory restrictions on further leveraging pledged taxes. The rating considers these strengths in light of the very narrow tax pledge and the highly volatile nature of the total transfer tax stream.

RATING OUTLOOK

The stable outlook incorporates both the stable outlook of the state's general obligation rating and the expectation that coverage of annual debt service on both types of bonds by their respective pledges will remain strong.

FACTORS THAT COULD LEAD TO AN UPGRADE

-Sustained growth in pledged taxes or state actions that further strengthen the respective special tax pledges

FACTORS THAT COULD LEAD TO A DOWNGRADE

-Sustained decline in pledged taxes or statutory changes that weaken bondholder covenants

-A downgrade of the state's general obligation rating

LEGAL SECURITY

The transportation infrastructure bonds are secured by receipts of a 2% assessment on the retail price of each gallon of gasoline sold by distributors in the state and receipts of a \$0.03 assessment on each gallon of diesel fuel sold in the state.

The property transfer tax revenue bonds are secured by a statutory transfer of the first \$2.5 million of property transfer tax receipts from the state to the Vermont Housing Finance Agency (HFA). Act 85 of 2017 specifically allocates the first \$2.5 million of collections to the HFA to pay debt service on the authorized bonds.

USE OF PROCEEDS

Not applicable.

PROFILE

The State of Vermont is located in the northeast United States. Its estimated 2017 population of just under 624,000 makes it the second smallest state in the country. Its 2017 nominal GDP of \$32.2 billion is the smallest of the 50 states.

METHODOLOGY

The principal methodology used in these ratings was US Public Finance Special Tax Methodology published in July 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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