FitchRatings

Fitch Rates Vermont's $127MM GOs 'AAA'; Outlook Stable

Ratings Endorsement Policy

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Fitch Ratings-New York-21 February 2012: Fitch Ratings assigns an 'AAA' rating to the following State of Vermont general obligation (GO) bonds:

--$25 million GO bonds, 2012 series A (Vermont Citizen Bonds);
--$28 million GO bonds, 2012 series B;
--$10 million GO bonds, 2012 series C (Federally Taxable);
--$69.2 million GO refunding bonds, 2012 series D.

The bonds are expected to sell as noted above during the week of March 5, 2012.

In addition, Fitch affirms the 'AAA' rating on the state's outstanding GO bonds.

The Rating Outlook is Stable.

SECURITY
The bonds are general obligations of the State of Vermont and secured by the full faith and credit of the state.

KEY RATING DRIVERS

LOW DEBT LEVELS: Vermont's debt levels are considered low and are expected to remain so as affordability planning is employed. Vermont's debt profile reflects nearly exclusive use of general obligation debt and principal amortizes rapidly.

CONSERVATIVE FINANCIAL MANAGEMENT & COMMITMENT TO RESERVE FUNDING: The state's revenue stream is diverse and revenue estimates are updated twice a year. State reserve levels have been maintained at statutory maximum levels despite periods of declining revenue.

RELATIVELY NARROW ECONOMY: Vermont's economy has diversified but remains narrow with above-average exposure to the cyclical manufacturing sector. While statewide educational attainment and unemployment levels compare favorably to the nation, median resident age levels are well above the national average.

PENSION SYSTEM MODIFICATIONS IMPLEMENTED: The funded ratios for Vermont's pension systems have declined in recent years, though the state has funded its actuarially required contributions and has made modifications to benefits and employee contribution levels in recent years.

CREDIT PROFILE
Vermont's 'AAA' rating reflects its low debt burden which is maintained through adherence to debt affordability guidelines, as well as its conservative financial management and maintenance of sound reserves. Outstanding debt, which is nearly entirely GO and matures rapidly, has declined from previously moderate levels. The state budgets conservatively, and its diverse revenue stream includes a state property tax for education. Reserves in each of the state's three major operating funds as of the close of fiscal 2011 were fully funded at 5% of prior-year appropriations and are expected to remain at or near fully funded levels through fiscal years 2012 and 2013. The relatively narrow state economy is supported by larger than average employment in tourism, health and educational services, government, and manufacturing. Vermont has a relatively small income base with an older and well-educated population.

Vermont employment contraction registered in 2008 and 2009 was less severe than that experienced nationally. State employment in 2010 was relatively flat versus continued national decline, and 2011 employment recovery has been more positive than the national trend. December 2011 data indicate state employment grew by 1.5% on a year over year basis, slightly ahead of 1.3% growth for the U.S. for the same period. Although manufacturing sector employment, led by an IBM facility near Burlington, still exceeds the national level on a percentage basis, both employment and personal income reliance on this sector have dropped in recent years.

State unemployment has historically been below the national level and Vermont's December 2011 unemployment rate of 5.1% is well below the national rate of 8.5% for the same month. Vermont has been challenged by the aging of its population; the median age of 41 years is well above the national 37.2 years and is exceeded only by Maine. Per capita personal income in 2010 totaled $40,098, ranking Vermont 19th among the states at 100.4% of the national level, an improved position relative to 2009.

Heavy rains from Tropical Storm Irene, which passed through Vermont in late August 2011, resulted in heavy flooding throughout the state. As a result, the state's office complex and the Vermont State Hospital, both in Waterbury, were heavily damaged, and more than 500 miles of roads and 30 bridges were impassable or destroyed. The cost estimate for recovery currently totals more than $520 million, with much of that expected to be federally funded. The state's portion is currently estimated at $88 million, with more than half of that expected to be financed through reallocated capital funds over the next few years. At the present time, despite the impact from the storm, it does not appear that state revenue or economic performance in fiscal 2012 will be significantly affected.

Revenue performance from the state's major tax sources in fiscal years 2009 and 2010 was decidedly negative as a result of the national recession, though prompt actions to maintain balance through expenditure reductions, the use of carried forward balances, and application of stimulus funds, were implemented, and operating surpluses in the state's general fund were achieved in each year. Revenue performance improved markedly in fiscal 2011, with 11.1% growth in personal income tax revenues and 4.7% growth in sales tax revenues, and the state closed the fiscal year with a $65 million general fund operating surplus on a $1.2 billion budget.

The enacted fiscal 2012 general fund budget addressed a $176 million budget gap through utilization of $29 million from the human services caseload reserve which was funded with the prior year's surplus, a reduced contribution from the state's general fund for support of the Education Fund, increased health care provider taxes, realization of labor savings related to pensions, and agency spending reductions. Through January 2012, fiscal 2012 revenue performance is running $4.7 million behind revised revenue expectations released on January 18, 2012. The January 2012 revenue estimate for fiscal 2012 was $1.8 million lower than the last estimate released in July 2011.

The legislature is currently considering the executive budget proposal for fiscal 2013, which closes a projected $50 million gap through human services spending reductions ($30 million) and from monies freed-up from the fiscal 2012 budget due to declining caseloads. General fund revenues are projected to rise by 5.8%, and budgeted appropriations grow by a like amount. The revenue estimate for fiscal 2013 assumes relatively robust personal income growth of 8% over fiscal 2012 levels. As noted earlier, reserve levels across the state's three major operating funds are expected to remain at or near their statutory maximum levels.

Vermont's tax-supported debt is nearly exclusively GO, and it amortizes rapidly. The state's debt burden is low. As of June 30, 2011, net tax-supported debt totaled $506 million, representing 2% of 2010 personal income. Debt has declined since the 1990s as a result of debt affordability recommendations, and while annual issuance levels are expected to grow, debt ratios are expected to remain low to moderate. Vermont continues to appropriate required contributions to its pension systems although funded ratios have recently declined in part due to asset valuation declines. The state in recent years has implemented a series of changes to benefits, employee contributions, and actuarial assumptions, and Fitch will continue to monitor the performance of the systems.

Contact:

Primary Analyst
Kenneth T. Weinstein
Senior Director
+1-212-908-0571
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Karen Krop
Senior Director
+1-212-908-0661

Committee Chairperson
Laura Porter

Managing Director
+1-212-908-0575

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: brian.bertsch@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from the Financial Advisor and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria', Aug. 15, 2011;
--'U.S. State Government Tax-Supported Rating Criteria', Aug. 15, 2011.

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Tax-Supported Rating Criteria
U.S. State Government Tax-Supported Rating Criteria

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