Fitch Rates Vermont's $25MM GOs 'AAA'; Outlook Stable

Ratings
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Fitch Ratings-New York-12 November 2010: Fitch Ratings assigns an 'AAA' rating to the following State of Vermont general obligation (GO) bonds:

--$25 million 2010 series E (Vermont Citizen Bonds).

The bonds are expected to sell via negotiation on Nov. 16, 2010.

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

The Rating Outlook is Stable.

RATING RATIONALE:

--Vermont's debt profile reflects nearly exclusive use of GO debt and amortizes rapidly. Debt ratios have declined in recent years and are now low; affordability planning is employed.
--The state's revenue stream is diverse, and reserve funds remain funded at statutory maximum levels.
--Vermont's economy has diversified but remains narrow and somewhat vulnerable to the cyclical manufacturing sector.

KEY RATING DRIVERS:

--Maintenance of fiscal balance and conservative management practices.
--Maintenance of a low to moderate debt burden.

SECURITY:

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

CREDIT SUMMARY:

Vermont's 'AAA' rating reflects its low debt burden which is maintained through adherence to debt affordability guidelines, conservative financial management, and 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 major operating fund as of the close of fiscal 2010 were fully funded at 5% of prior-year appropriations. The state's enacted budget for fiscal 2011 contemplates maintaining the reserves at their maximum statutory levels; the education fund reserve will be funded slightly below the 5% level but still within the maximum statutory range of 3.5% to 5%. The relatively narrow state economy is supported by larger than average manufacturing (albeit less so than in the past), tourism, and health and educational services sector employment. Vermont has a relatively small income base with an older and well-educated population.

Vermont lost less than 1% of its jobs during the recession earlier this decade; by 2004 it had exceeded its pre-recession annual employment peak, in sharp contrast to the steep and protracted recession of the early 1990s. Employment growth since 2005 has lagged the nation, and declines registered in 2008 and 2009 were less severe than those experienced nationally. September 2010 data indicate state employment continues to contract as national employment has returned to slight growth. Manufacturing sector employment, led by an IBM facility near Burlington, still exceeds the national level on a percentage basis, though 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 September 2010 unemployment rate of 5.8% is well below the national rate of 9.6% for the same month. Vermont has been challenged by the aging of its population; the median age of 41.5 years is well above the national 36.9 years and is exceeded only by Maine. Per capita personal income in 2009 totaled $39,021, ranking Vermont 22nd among the states at 98.5% of the national level.

Conservative practices and well-stocked reserves sustained healthy finances during the recession earlier this decade, with the state using some reserves and reducing appropriations in fiscals 2002 and 2003 when revenues softened. Operations were subsequently favorable, and reserves were restored to their maximum level by the end of fiscal 2004. Surpluses in fiscals 2004 through 2008 were largely used for reserves, additional pension contributions, property tax relief, and carryovers into ensuing fiscal years. Fiscal 2009 general fund revenue expectations were reduced several times and ultimately declined 8% from fiscal 2008 figures. Personal income tax receipts were down by a significant 14.8% while corporate income taxes and sales and use tax receipts were down by 11.3% and 5.1%, respectively. Measures to maintain balance during fiscal 2009 were promptly implemented and Vermont ended with an operating surplus of approximately $15 million.

Fiscal 2010 revenue expectations were revised downward early in the fiscal year, and $28 million in spending cuts, balance transfers and application of a portion of the prior year's surplus were employed to maintain balance. Subsequent revisions resulted in slight increases to revenue expectations, and preliminary results indicate fiscal 2010 closed with a slight operating surplus. Actual general fund revenues were slightly ahead of January 2010 forecast levels, falling 5.8% from fiscal 2009. Personal income tax receipts were 6.1% below fiscal 2009 levels, while corporate income taxes and sales and use tax receipts were down by 5.1% and 3.1%, respectively. The enacted general fund executive budget for fiscal 2011 addressed a $154 million budget gap, primarily through human service agency cuts, $38 million in cuts across other agencies, $15 million in savings generated through a series of pension reforms, and through an increase in the hospital provider tax. The budget maintains the state's three reserve funds within their respective maximum statutory levels. Through October 2010, fiscal 2011 revenue performance is running ahead of budgeted expectations.

Vermont's tax-supported debt is nearly exclusively GO, and it amortizes rapidly. The state's debt burden is low. As of June 30, 2010, net tax-supported debt totaled $464 million, equaling $747 per capita and 1.9% of 2009 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.

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In addition to the sources of information identified in the 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. 16, 2010.
--'U.S. State Government Tax-Supported Rating Criteria', Oct. 8, 2010.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
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U.S. State Government Tax-Supported Rating Criteria